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Politics this week

Nov 4th 2004
From The Economist print edition

Another four years

Reuters

President George Bush won a second term in the White House. He beat John Kerry by an unexpected margin of 51% to 48% but his majority in the electoral college was secured only after a narrow victory in Ohio. The president promised to govern on behalf of all Americans.

See article

The Republicans also had a good night in the race for **Congress**, slightly increasing their majorities in both chambers. Tom Daschle, the Democrats' leader in the Senate, narrowly lost his South Dakota seat to John Thune. But Barack Obama captured the open Senate seat in Illinois for the Democrats, becoming only the fifth black ever to sit in the upper chamber. Republicans picked up four out of their five targeted redistricted seats in Texas and now hold the majority in the state's congressional delegation.

See article

In races for **state governorships** the Republicans gained Indiana and Missouri, but lost Montana and New Hampshire. Several state referendums were also passed, including California's initiative to fund stem-cell research. Ballot measures that banned gay marriage passed in all 11 states that held them. Referendums that failed included a proposal in Colorado to reform its voting system and a measure in Alaska to legalise marijuana.

See article

Elsewhere, concerns were raised over the failing health of the chief justice of the **Supreme Court**, William Rehnquist, after he revealed he was receiving chemotherapy and radiation treatment for his thyroid cancer. Mr Rehnquist, who is 80, did not take part in this week's court hearings.

Slipping away

Yasser Arafat, the ailing Palestinian leader, underwent tests in a military hospital near Paris to identify an apparent blood disorder; doctors ruled out leukaemia, but by the middle of the week his health had deteriorated. In view of George Bush's re-election as America's president and Mr Arafat's incapacity, both Palestinians and Israelis back at home pondered their tactics. Meanwhile, the Popular Front for the Liberation of Palestine sent a 16-year-old from Nablus to blow himself up at a market in Tel Aviv. He killed three Israelis.

See article

Reuters

On the weekend before America's election, **Osama bin Laden** appeared on a video aired by the Gulf-based satellite TV channel, al-Jazeera. “Just as you lay waste our nation, so shall we lay waste yours,” he told Americans.

See article

Sheikh Zayed of **Abu Dhabi**, who had presided over the seven-state United Arab Emirates since they clubbed together in 1971, died. His eldest son is set

to take the helm.

On the day of America's election, Sudanese forces blockaded a number of refugee camps in **Darfur** and moved out hundreds of their residents despite UN condemnation. Sudan said it was moving the refugees to a more "suitable" location.

Botswana's ruling party, which has run the government since independence from Britain in 1966, won a general election; parliament then endorsed Festus Mogae as president for a second and final four-year term.

See article

A leader, at last

With the vote count complete, Hamid Karzai, at long last, was formally declared president of **Afghanistan**.

Charles Jenkins, who defected to **North Korea** in 1965 but handed himself over to American officials earlier this year, was found guilty of desertion and sentenced to 30 days' imprisonment. The lenient sentence may reflect his probable co-operation in providing information about the North Korean regime.

A bill allowing Pervez Musharraf to remain as president of **Pakistan** and chief of the armed forces passed through the Senate. This does not necessarily mean that the general will break his promise to shed his uniform at the end of the year, but makes it possible and, critics fear, likely.

America's other elections

Latin America was also gripped by election fever. In **Uruguay**, Tabaré Vázquez swept to victory as the first president in 150 years from outside the traditional two-party system. The governing Concertación party did well in local elections in **Chile**, boding well for its prospects in next year's presidential ballot, while in **Venezuela**, loyalists of Hugo Chávez strengthened their hold over states and municipalities. In the second round of **Brazil's** local elections, the governing Workers' Party lost the key cities of São Paulo and Porto Alegre after winning a raft of smaller ones in the first round.

See article

Argentina offered holders of its $100 billion in defaulted debt a new restructuring deal. Creditors' groups complained that it was little better than an offer made in June.

See article

Colombia's Supreme Court authorised the extradition of Gilberto Rodríguez Orejuela, a former boss of the Cali drug cartel. The United States has been trying to get hold of him for years.

Film murder

AP

The Netherlands was convulsed by the murder of a film director. Theo van Gogh had recently released a movie deemed to be deeply offensive to Muslims, and had received death threats. A suspect with connections to Islamist militants shot and stabbed Mr Van Gogh to death on the streets of Amsterdam.

See article

Hungary's prime minister, Ferenc Gyurcsany, announced that he would withdraw all of his country's 300 troops from Iraq by the end of March next year at the latest.

The first round of **Ukraine's** presidential election produced a close result between Victor Yanukovich, the prime minister, who is backed by the current president, Leonid Kuchma, and Victor Yushchenko, the main opposition candidate. As neither man won an absolute majority, a run-off is to be held on November 21st.

After the Italian government bowed to demands by the European Parliament to withdraw its nominee to the **European Commission**, Rocco Buttiglione, the Latvian government followed suit, replacing Ingrida Udre with Andris Piebalgs. Hungary is under pressure to withdraw its commissioner as well.

Six top members of **ETA**, the Basque terrorist group, sent a letter from jail calling for ETA to abandon violence. ETA has killed more than 800 people since 1968.

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Business this week

Nov 4th 2004
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On trial

In the first criminal trial stemming from the spectacular collapse of **Enron** in 2001, a jury found four former Merrill Lynch bankers and one former executive of the energy-trading giant guilty of conspiracy and fraud. The case involved a relatively obscure deal to finance energy-producing barges in Nigeria. Federal prosecutors, who argued that the deal was meant to inflate profits, were encouraged by the victory because similar arguments will be made in the trials of more senior Enron executives, expected next year.

Oracle upped its bid for **PeopleSoft** to $8.8 billion in an effort to conclude its year-and-a-half long takeover battle for the rival American software firm. Oracle said that this was its final offer and gave shareholders a deadline of November 19th to accept.

Yukos's hopes of settling outstanding tax demands from Russia's government suffered a fresh setback. The Russian oil giant and its main production unit, Yuganskneftegaz, received a further demand for $10 billion of taxes allegedly owed for 2001 and 2002. Yukos's entire tax liability is some $14 billion. The government is now likely to force the sale of Yuganskneftegaz at a bargain price to cronies.

Wheels stop turning

Some 15,000 workers at **Volkswagen** in Germany downed tools in protest at proposed cost-cutting measures by the carmaker. Subsequent negotiations between managers and union leaders resulted in a tentative agreement on job security in return for a wage freeze, though the deal could yet collapse before it is formally ratified.

See article

BMW's performance lagged behind analysts' expectations. Although the German luxury carmaker made *euro*479m ($585m) in the third quarter, 7.6% more than a year ago, its shares dipped.

Mercky business

Merck's shares plunged after reports that it had delayed releasing damaging information about one of its drugs. Documents apparently show that the drug giant covered up evidence for several years that Vioxx, a blockbuster anti-arthritis drug, caused heart problems in some patients. It finally withdrew the drug in September.

See article

Constellation Brands, the world's leading winemaker, sought to consolidate its position with a deal to buy **Robert Mondavi**, one of California's oldest wineries, for just over $1 billion. The deal will give Constellation control of some 20% of the American wine market.

Wal-Mart announced plans to open at least ten new stores in China in the next year to take advantage of a recent relaxation by the government of rules limiting foreign ownership of businesses, in line with promises to the World Trade Organisation. The world's largest retailer will site the new businesses in smaller provincial cities.

Verizon Wireless dropped its opposition to a plan by regulators to give valuable spectrum to **Nextel Communications**, a rival American mobile-phone operator, in order to shift customers away from airwaves that interfere with radios used by emergency services in hundreds of cities. Verizon had argued that the spectrum should be auctioned. Nextel, in return, agreed to give up its exclusive claim to the phrase “push-to-talk” for a walkie-talkie service.

Time Warner reported profits of $499m in the third quarter, a drop of 8% compared with a year ago. The world's largest media company said that its profits had been hit by the establishment of a $500m legal reserve to settle costs arising from an ongoing investigation into accounting irregularities at America Online, its internet arm.

Flying ever higher

Ryanair announced that profits in the half year to the end of September were up by 18% compared with the year before, to *euro*200m ($243m). The Irish low-cost airline said that passenger numbers had risen by 24% in the same period and that fuel surcharges at other airlines had pushed business its way. But it cautioned that the high oil price could hit future profits.

Britain's Serious Fraud Office arrested two people in connection with investigations of accounting irregularities in contracts between **BAE Systems** and the government of Saudi Arabia. Earlier, allegations had surfaced that the defence firm had maintained a “slush fund” in order to facilitate commercial contracts. BAE Systems, however, denies the charge.

Still growing

America's economy grew at a an annual rate of 3.7 % in the third quarter, up from an annual rate of 3.3% in the previous three-month period. Consumer spending continued to boom but expectations of still higher growth were confounded by a widening trade deficit and slower-growing inventories.

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The presidential election

Now, unite us

Nov 4th 2004
From The Economist print edition

George Bush's historic victory should be taken more as an opportunity than a vindication

Reuters

IN THE end, America's presidential election closed with a familiar-sounding result that prompted a weary and anxious groan: a cliff-hanger, with George Bush winning after a technical wrangle in a heavily contested state. But that is misleading. Do not underestimate the scope of the Republicans' victory—or its importance for both America and the world.

In one way, the victory was a narrow one. The president carried Ohio by just 136,000 votes (or around 2% of the votes cast there). John Kerry reluctantly conceded defeat only when he calculated that there were not enough uncounted ballots to provide him with the votes he needed. That retreat looks a wise decision for America's sake—particularly seeing that this time Mr Bush won the national popular vote by 3.5m.

As that figure implies, it was a stunning result for Mr Bush—and not just because exit polls had indicated that Mr Kerry would win. The president won a clear majority of the vote (the first time anyone has done that since his own father in 1988, albeit thanks to the lack of any serious third-party candidate). The huge turnout that Democrats had yearned for ended up proving instead the power of conservative America.

Mr Bush also has a much firmer base in Congress. The Republicans added at least four more seats to their comfortable majority in the House of Representatives. Crucially, they made a net gain of four Senate seats, giving them in effect a 55-45 advantage in the upper chamber. Add in the occasional support of some conservative Democrats, and Mr Bush is close to the 60 votes necessary to survive a delaying filibuster procedure—a huge achievement and advantage.

Second term, second chance

So the “accidental president”, who reached the White House last time only with the help of those dimpled chads and the Supreme Court, has a real electoral mandate at last. He deserves congratulations for winning such a vote even in the face of a costly war and a patchy economy. The question is what he will do with his victory; and also how the rest of the world, which had been praying for a Kerry victory over the uncomfortably muscular Texan, will react.

After all, Mr Bush has in a sense been here before. In the months after September 11th, he had the support of 90% of a broadly united country (not just 51% of a bitterly polarised one). America also had the backing of most of the world. That was before the war in Iraq; before Abu Ghraib, Guantánamo Bay and Fallujah became household names; before the compassionate conservative lurched to the right on stem-cell research and gay marriage; before the budget deficit lurched out of control. Mr Bush's supporters will argue that he is hardly responsible for all these things. But arguing over who did what in the past is beside the point. The question is how to do things better in the future.

Mr Bush would do well to focus now on pragmatism over ideology. His aim must be not only his own place in history, but also America's: both will require more sensitivity and unity, and less shock and awe than in his first term. At home, one early test of his willingness to reunite his country will be whether he will appoint any Democrats to his new cabinet. Another awkwardness could well be the Supreme Court. The chief justice, William Rehnquist, is gravely ill. If Mr Bush allows the Christian right a veto over his appointments, he will re-ignite America's culture wars.

And Mr Bush will need all the friends he can get to tackle America's fiscal problems. During his first term, the president went on a spending splurge. That must now come to an end—not least because both the president and Congress must face up to the financial challenge posed by the retiring baby-boom generation. Here Mr Bush has the right instincts: he has talked, albeit vaguely, about creating an "ownership society" by partly privatising the Social Security (pensions) system and setting up health-care accounts. He should also combine conservative ideals with pragmatism by pushing tax reform.

The world on his shoulders

It is abroad, though, that Mr Bush has most to do; as Richard Haass, his own former foreign policy adviser, spells out (see article), the president's in-tray bulges with problems from Iran to Sudan, from North Korea to Israel. Once again, his cabinet appointments should provide an early clue. The manifest troubles in Iraq provide an excellent pretext for change. Getting rid of Donald Rumsfeld, who should have resigned after the Abu Ghraib debacle, would be a welcome start.

On the campaign trail, Mr Bush courageously stuck to his commitment to see through the task in Iraq and not to give up on his quest to spread democracy throughout the Middle East. But he needs to back up these words with action. In the short term, Iraq surely needs more American troops, not fewer. America will remain an imperfect salesman for western values as long as the public face of American justice is Guantánamo Bay, and as long as it is perceived to take a one-sided approach to the Israel-Palestine conflict. As a second-term president, Mr Bush can hold Ariel Sharon to his commitment to help create a Palestinian state and do more to rally Arab support for a renewal of the peace process.

Mr Bush stands a chance of success only if allies help, and only if he reaches out to allies. He can and should show his multilateral side by pushing hard for a deal in the World Trade Organisation. Europe's leaders, too, need to face up to reality, however. Mr Bush may not exactly be their *pain au chocolat*; but their interests are basically the same as his. Rather than concentrating on past quarrels, the Europeans can gain from working with America to achieve their joint objectives. Those lie, above all, in a peaceful Iraq, a de-nuclearised Middle East and a viable, non-violent Palestinian state. It is time to start talking again about how to achieve those things, together.

In his first term, Mr Bush's instincts were generally right; his execution let him down. His boldness has won a momentous electoral victory. The job of making his second term more successful than his first requires a new tone and new tactics—but also broad support at home and around the world.

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Iraq

The perils of imprecision

Nov 4th 2004
From The Economist print edition

Whatever the correct figure, the civilian casualty count is far too high—and rising

AP

Get article background

SOME 100,000 souls—perhaps even more—may have perished in Iraq as a result of the American-led invasion in March last year. So, at any rate, says a respected British medical journal, the *Lancet*. If only half that figure is the true one, it is shocking. For sure, it is impossible to cite a maximum figure that would still justify the cost in lives that was bound to be paid by the innocent for ridding the world of a mass-murderer thought by Human Rights Watch's most careful reckoning to have killed at least 280,000 Iraqis at home, not to mention at least 1m who died in wars he started abroad.

But whatever the precise death-count since Saddam Hussein's fall and however lethal his own regime, several bitter facts cannot be denied: the rate of killing in Iraq has been far greater than those (including *The Economist*) who advocated war had expected. Moreover, as American and Iraqi forces steel themselves for another heavy assault on insurgents in Fallujah and maybe other rebel towns in the Sunni triangle, the politicians in charge—including a re-elected George Bush—should pause before raining down another torrent of bombs that are sure to kill many civilians as well as fighters.

The *Lancet*'s report is bound to be open to dispute (see article). It extrapolates heroically from a small number of samples from across the country: the actual number of violent deaths it analyses since the start of the American invasion is just 73. The method for estimating “excess deaths” from infant mortality as a result of the invasion and the ensuing insurgency is subject to imponderables. Plainly, amidst such chaos and intimidation, no one knows for certain how many have died.

Still, even the lower figures cited by other monitors are disquieting. An anti-war but fastidious website called http://iraqbodycount.net puts the latest toll for civilians at more than 14,000 (at the lower end of its range), including more than 7,000 deaths during the invasion. And even senior American soldiers admit that the rate of insurgent attacks has risen—some say by a quarter even since the start of Ramadan, the Muslim month of fasting, three weeks ago. That means about 80 attacks a day on coalition and Iraqi troops and police. Everyone agrees that the civilian death-count is up too.

Mission impossible?

Iyad Allawi, Iraq's interim prime minister, is still determined, along with his American backers, to hold a

general election by the end of January (see article). Can it be done amid such bloodshed? The omens are mixed. Almost the entire Shia community, some 60% of the population, including—most hopefully—the followers of Muqtada al-Sadr, who until recently was bent on revolt and boycott, seems keen to vote. So are the Kurds, who make up a fifth of Iraqis. It is among the Sunnis that disaffection, rebellion and a mounting toll of casualties are likely to render an election in their main areas unholdable.

Mr Allawi and his foreign allies have no choice but to seek to subdue the Sunni insurgents. He is sensibly trying to draw the less fanatical into negotiation while promising to hammer the rest. But past tactics, especially those applied by the Americans from the sky, have too often been unnecessarily heavy-handed—and counter-productive. Moreover, the Pentagon is quite wrong to refuse to estimate Iraqi casualties, albeit that the margin of error is bound to be high. Reports such as the *Lancet*'s should be taken seriously—and bolster the case for selectivity and restraint, even against the bloodiest of foes.

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China's economy

Please release me...

Nov 4th 2004
From The Economist print edition

It is time for China to unshackle the price of money

THE middle kingdom's growing importance in the global economy was underlined last week when financial and commodity markets around the world shivered after China's central bank announced the first rise in the country's interest rates for nine years. The last time the bank lifted rates, in 1995, the rest of the world scarcely noticed. But today China's greater economic weight means that even a polite burp in Beijing is heard around the world.

For China itself, the increase in interest rates can be judged in two ways. First, it was a welcome sign that the Chinese authorities are moving towards more market-based economic policies. And second, higher interest rates will help to slow China's sizzling economy. A quarter-point rise to 5.6% was hardly a great leap, but if it is followed by further increases, as many now expect, it could cool things down quite a bit.

For the past year, the government has been trying to cool the economy down by using administrative measures aimed at controlling the quantity of credit rather than its price. Bank lending and imports have slowed, but investment is still growing too fast. China's real problem is not overheating and inflation: the consumer-price index excluding food is rising at an annual rate of only 1%. Instead, the problem is the increasing distortions that are being created because an important price signal is being suppressed. Holding down interest rates results in a misallocation of capital, with over-investment in some sectors and bottlenecks in others.

Interest rates need to be allowed to play a bigger role in allocating credit. Real interest rates are currently close to zero, far too low for an economy that is growing at an annual rate of around 9%. Based on inflation in the corporate sector, companies enjoy a negative real cost of capital. As well as encouraging over-investment, artificially low borrowing costs have inflated a property bubble in some regions. By starting to raise interest rates, the central bank is belatedly sending a warning to property speculators that rates could rise further in future.

But one problem is that, in China, interest rates are rather a blunt weapon. Investment by local governments and state-owned firms is little affected by the cost of capital, for such entities do not care about profits. So there is a danger that wasteful investment will continue, and that higher interest rates will mainly hit private firms which have already been starved of credit by the government's direct controls on bank lending.

Tied together

An even bigger constraint on China's monetary policy is that it continues to peg its currency to the dollar. An established rule holds that a country cannot successfully fix both its interest rate and its exchange rate—especially as its economy becomes more open. By tying the yuan to the dollar, China has, in effect, also adopted America's monetary policy, which is far too loose for its rapidly growing economy. Large capital inflows have forced China's central bank to buy massive quantities of dollar reserves, which have spilled over into excessive growth in the money supply and credit. Higher interest rates are likely to attract yet more foreign capital, fuelling domestic liquidity, and so perversely undermining the impact of higher rates.

The Chinese government agrees that in the medium term it needs to set its currency free. But it is

unlikely to allow a free float until it has reformed its banking sector, which is laden with bad loans (see article). If Chinese households were now given a free choice, many, knowing the dodgy state of banks, would pull their money out and switch their savings into dollars, probably causing a collapse of the banks themselves. Even so, China could still introduce some flexibility into its exchange rate, and so regain control of monetary policy, by adopting a wider band or by pegging to a currency basket rather than just to the dollar. Last week the central bank also scrapped the ceiling on banks' lending rates, allowing them to charge more to riskier borrowers. This is a useful step towards a more market-based credit system. But full liberalisation of interest rates and the exchange rate must still be some way off given the fragility of the banking system.

In the shorter term, can China safely slow down its super-fast economy? A further rise in interest rates on top of the measures of the past year will improve its chances, but emerging economies with underdeveloped financial systems all too often land with a bump. A hard landing in China may never show up in its GDP figures, which have long been “smoothed” for political purposes. But this time a sudden slowdown would not be easy to hide. China now accounts for a much larger chunk of global imports, so the true scale of any slowdown will be painfully clear from changes in commodity prices and world trade. Market signals within China may still be suppressed, but global prices will reveal all.

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Non-financial reporting

Corporate storytelling

Nov 4th 2004
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Non-financial accounting is now too serious to be left to amateurs

THERE was a time when companies' social and environmental reporting was not taken seriously. The efforts of pioneers were often dismissed as cynical exercises in public relations designed to appease non-governmental organisations (NGOs). In the 1990s, NGOs increasingly criticised large corporations for their uncaring attitude towards the environment and employees in developing countries. Firms hoped that a few carefully turned words about their employment practices and CO2 emissions might serve to divert the NGOs' wrath.

This not very attractive duckling now holds out the promise of turning into a surprisingly handsome swan. “Non-financial reporting” has moved on from those early days. The British government wants to make it compulsory for large quoted companies. And this week a new ranking of non-financial reports in a joint effort by SustainAbility, a consultancy, the United Nations Environment Programme and Standard & Poor's, the top credit-rating agency, shows how sophisticated they can be (see article). BP's 50-page fact-filled document has an introduction by its chief executive, Lord Browne, in which he says that the company's intention is “to report on more than just our financial performance and tell a broader story as clearly as we can”.

Story-telling is all very well, but unless it is relevant to a company's performance it is best left to fiction writers. There is growing evidence, however, that the stories which companies are now telling in these reports are of interest to a widening audience, and that they do have a real bearing on a firm's ability to raise capital and recruit the best employees. This year's listing, significantly, was the first to be supported by Standard & Poor's, which says that it now recognises “the growing importance of non-financial disclosure in the overall assessment of a company's risk profile”.

The big problem is that the genre's development so far has been haphazard. No one powerful organisation has taken responsibility for its progress. This week's winning reports are as notable for their differences as for their similarities. There is little agreement among the followers of best practice as to what best practice should be. That makes it difficult to compare performance on environmental and social issues across industries or across time. There have been demands for harmonisation, but the most widely accepted attempt to satisfy this demand, the Global Reporting Initiative (GRI), demonstrates the drawbacks of trying to impose the sort of one-size-fits-all format that is appropriate for financial reporting.

To cover the very different social and environmental impacts of companies such as Rabobank and Rio

Tinto, a mining firm, the GRI consists of a long list of requests for information which companies can choose to answer as they wish. BP, for example, declines to provide the requested geographical breakdown of the government subsidies that it receives.

In need of a lead

For non-financial reporting to become more of a swan and less of an ugly duckling, more discipline needs to be brought to bear on its standards. For a start, non-financial reports should stick to measurable things. There is still too much waffle about good intentions in even the best reports. Just because such reports are non-financial does not mean that their message cannot be conveyed in figures. And they need to stick to things that are material to the company's business. The report of British American Tobacco would have more credibility if it addressed more of the issues around smoking and health, whereas Co-operative Financial Services' discussion of animal rights and its CO_2 emissions seems irrelevant.

There are plenty of things material to almost all businesses that are still not being reported in financial accounts. One is intellectual property. Few businesses try to value it—less than two out of five, according to a recent survey of European companies—and even fewer report it when they do. Another is human resources, which so many companies profess to be their “most valuable asset”. Yet few of them say how much they invest in training, or how many employees they lose in a year.

Finally, establishing credibility for non-financial reports is crucial if companies are genuine in their desire to tell a broader story as clearly as they can. And that means not just boasting, but submitting to some form of reliable audit. Accounting firms have been slow to move into this area, but the president of the Institute of Chartered Accountants in England and Wales said recently that he thinks the profession should now take a lead. It is an area sorely in need of leadership.

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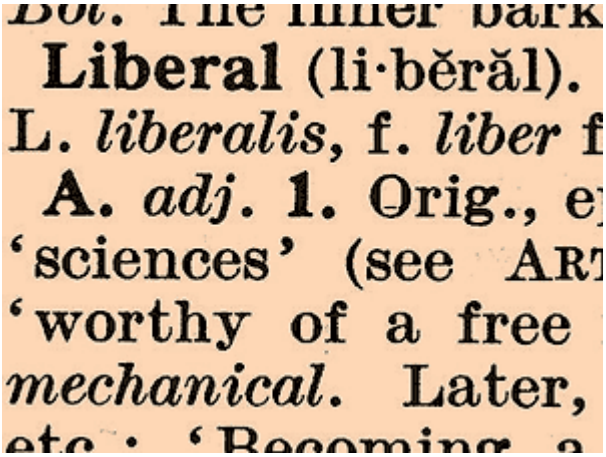
About sponsorship

Political vocabulary

There's a word for that

Nov 4th 2004
From The Economist print edition

And we want it back


Liberal (li·bĕrăl).
L. *liberalis*, f. *liber* f
A. *adj*. 1. Orig., e
'sciences' (see AR
'worthy of a free
mechanical. Later,

ALL through this election campaign, George Bush has flung the vilest term of abuse he knows at John Kerry. You name the policy—Mr Kerry's support for punitive taxes and reckless public spending, as Mr Bush put it; his preference for stifling government and overweening bureaucracy; his failure to stand up for, oh, expensive new weapons systems, microscopic embryos and the sanctity of marriage—and the president's verdict in each case was the same. "There's a word for that," he said, again and again. "It's called liberalism."

What more need one say? And Mr Kerry was not just any sort of liberal: he had actually been the *most* liberal member of the Senate. When told this, appalled Republicans jeered more loudly than if Mr Bush had accused his challenger of eating babies. (That man dared to run for president! Did he think he would not be found out?) Understandably, Mr Kerry was sometimes wrong-footed by this egregious defamation. Occasionally, smiling nervously, he said he was not ashamed to be liberal. (Audacious, but perhaps unwise.) At other times he tried to deny it. (You see, he protests too much.) In America, that kind of accusation cannot easily be shrugged off.

"Liberal" is a term of contempt in much of Europe as well—even though, strangely enough, it usually denotes the opposite tendency. Rather than being keen on taxes and public spending, European liberals are often derided (notably in France) for seeking minimal government—in fact, for denying that government has any useful role at all, aside from pruning vital regulation and subverting the norms of decency that impede the poor from being ground down. Thus, in continental Europe, as in the United States, liberalism is also regarded as a perversion, a pathology: there is consistency in that respect, even though the sickness takes such different forms. And again, in its most extreme expression, it tests the boundaries of tolerance. Worse than ordinary liberals are Europe's neoliberals: market-worshipping, nihilistic sociopaths to a man. Many are said to believe that "there is no such thing as society."

Yet there ought to be a word—not to mention, here and there, a political party—to stand for what liberalism used to mean. The idea, with its roots in English and Scottish political philosophy of the 18th century, speaks up for individual rights and freedoms, and challenges over-mighty government and other forms of power. In that sense, traditional English liberalism favoured small government—but, crucially, it viewed a government's efforts to legislate religion and personal morality as sceptically as it regarded the attempt to regulate trade (the favoured economic intervention of the age). This, in our view, remains a very appealing, as well as internally consistent, kind of scepticism.

Parted in error

Sadly, modern politics has divorced the two strands, with the left emphasising individual rights in social and civil matters but not in economic life, and the right saying the converse. That separation explains how it can be that the same term is now used in different places to say opposite things. What is harder to explain is why “liberal” has become such a term of abuse. When you understand that the tradition it springs from has changed the world so much for the better in the past two and a half centuries, you might have expected all sides to be claiming the label for their own exclusive use.

However, we are certainly not encouraging that. We do not want Republicans and Democrats, socialists and conservatives all demanding to be recognised as liberals (even though they should want to be). That would be too confusing. Better to hand “liberal” back to its original owner. For the use of the right, we therefore recommend the following insults: leftist, statist, collectivist, socialist. For the use of the left: conservative, neoconservative, far-right extremist and apologist for capitalism. That will free “liberal” to be used exclusively from now on in its proper sense, as we shall continue to use it regardless. All we need now is the political party.

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Letters

Nov 4th 2004
From The Economist print edition

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FAX: 020 7839 2968 E-MAIL: letters@economist.com

Bush or Kerry?

SIR – It is with a "heavy heart" that I read your convoluted and nonsensical endorsement of John Kerry ("The incompetent or the incoherent?", October 30th). Spelling out a litany of reasons why George Bush should be elected, you suddenly prevaricated in a manner worthy of the Massachusetts Democrat himself. Claiming that things would not be so bad if we elected a Republican Congress to keep Mr Kerry in check ducks the issue of leadership that faces Americans and shows the naive outlook you share with your European neighbours.

The irony is that you also take it upon yourself to equate genius with simplicity ("Keep it simple", October 30th). By this reasoning, *The Economist* should endorse Mr Bush with nary a thought.

Christopher Hartwell
Washington, DC

SIR – You miss the most important qualification for a president—trust. Mr Kerry cannot be trusted. Not that he is a liar, he simply doesn't know what the truth is and doesn't care. Mr Bush is flawed but his conviction and commitment are at the core of his awkward style. He can be trusted.

Rhos Dyke
Pacific Palisades, California

SIR – Your endorsement of Mr Kerry makes you the stupidest group of people ever assembled. How could you possibly keep your jobs?

Donald Olds
Kennesaw, Georgia

SIR – Your instinct is towards change. But is Mr Kerry the candidate who will bring democracy to the Middle East or who would continue to coddle the region's tyrants? Is he the candidate who will give Iraqis control over their government, oil and destiny, or would he reinstate UN dominance and the "oil for food" programme? Will Mr Kerry continue to press for action on Iran's nuclear build-up, or will he dither while France and Germany appease the mullahs? Is he the candidate who will shore up Social Security by allowing partial privatisation, or will he continue to delay the day of fiscal reckoning?

Alas, you have not chosen the candidate of change.

Larry Breitbarth
Seattle

SIR – It is baffling how you could elevate Mr Kerry over Mr Bush. I dislike both men but do not support a man who has committed treason against his country in a time of war. After this interminable campaign I still do not know what Mr Kerry believes. You say that he will continue in Iraq just as Mr Bush would but I have heard him say that he would pull the troops out within months. You have chosen sound-bites that support your weak reasoning, yet others contradict all your suppositions. I will hold my nose and pull the lever for Mr Bush.

John Vanderslik
Mariposa, California

SIR – You should not be shy of voicing your opinion on the American election. Indeed, in 1944, with your newly acquired sensitivities, your argument could have run like this. Roosevelt deserves praise for his reaction to Pearl Harbour but has made some mistakes. He lost the battle of the Kasserine Pass in 1943. On D-Day he lost over 3,000 men in what his opponent called the “wrong invasion at the wrong time and in the wrong place”. Afterwards, Roosevelt, in battles that he outsourced to an ally, let 40,000 Germans escape from Falaise and another 80,000 from Walcheren. His biggest mistake, though, was the internment of thousands of people of Japanese ancestry, whether innocent or guilty, without trial. And he did not dismiss Chester Nimitz after Admiral Yamamoto was shot down without a trial and Japanese merchant vessels were sunk in blatant disregard of Geneva conventions.

If Roosevelt had made progress elsewhere in the world, it might have outweighed such mistakes. But “liberated” France is in disarray and China remains under occupation. Only the overthrow of Mussolini is clear progress.

Michal Odyniec
El Cerrito, California

SIR – It is a testament to the radicalism of Mr Bush that he has put the final nail in the coffin of an old political cleavage (markets versus government) and replaced it with a new one: emotional, populist crusading versus common sense. Thank you for a courageous endorsement.

Adam Luedtke
Seattle

SIR – The actions of the Bush administration in Guantánamo Bay and Abu Ghraib are nothing short of disgraceful. These examples of the hypocrisy of this administration will be a dark mark in American history. You cannot simultaneously fight wars based on liberty, equality and freedom, while at the same time dismissing those same principles in pursuit of victory. To do so undermines the very foundation upon which American foreign policy is ostensibly conducted, that of human rights and the freedom of people both economically and personally.

Jonathan Bornstein
Fairfax, California

SIR – I do not have a “heavy heart” regarding Mr Kerry's ability to perform as president. With his history of prosecutorial investigation of Iran-Contra and BCCI, and now his incredible fortitude in challenging a political machine unrestrained by ethics, he has proved himself a man of relentless courage and determination to see the job through. And he will not complain that it is “hard work”.

C. Elaine Cole
Joseph, Oregon

SIR – The charge that Mr Kerry is a flip-flopper is phoney. An intelligent man dares to change his mind when the context changes. Mr Bush didn't want a Department of Homeland Security; then he did. He didn't want a 9/11 commission; then he did. He didn't want Condoleezza Rice to testify before it; but he relented. He didn't want to testify; but he did. He didn't approve of nation-building; but he's building nations, of a sort, in Iraq and Afghanistan. He doesn't want to import drugs from Canada because they might be unsafe; but he'll cheerfully take flu vaccine from Canada because the shortage is a political liability to his campaign. So let's talk about flip-flopping.

Sally Cutler
Chevy Chase, Maryland

SIR – If you endorsed Michael Badnarik, the Libertarian candidate, you would not have a “heavy heart” but instead a sense of accomplishment at having supported the person with beliefs most like your own. He is a fiscal conservative, economic internationalist and social liberal.

Matt Weber
San Jose, California

SIR – Your decision-making process in casting a hesitant vote for Mr Kerry makes you a textbook "undecided". According to Nick Panagakis, a pollster, the process works like this. First, a voter judges the incumbent and if he doesn't measure up, the voter judges the challenger. If the challenger qualifies as a reasonable alternative, he gets the vote. As Mr Panagakis says: "undecided voters are not literally undecided...It helps to think of undecided voters as undecided about the incumbent." This explains why more than 80% of undecideds go for the challenger.

Joel Russell
Oxnard, California

SIR – You have a "heavy heart"? I am shocked and amazed. Who would have guessed that *The Economist* has a heart?

Martin Geddes
Edinburgh

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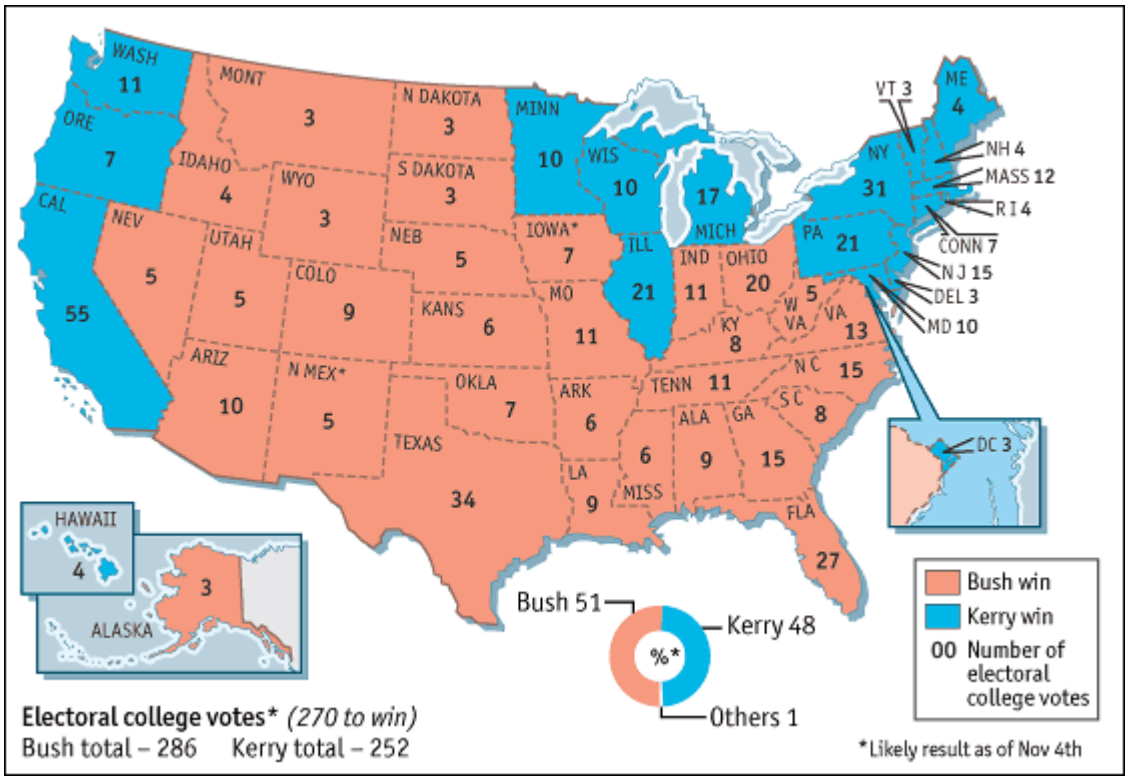
George Bush wins

Back to basics

Nov 4th 2004 | WASHINGTON, DC, AND WEST ALLIS, WISCONSIN
From The Economist print edition



Old electoral skills and an appeal to conservative values ground out a huge victory for the president in a hostile environment

Get article background

IT WAS close. It came down to a single state and to legal challenges. The voting blocks were similar; so were almost all the states the two candidates won. It was, in some ways, a repeat of the 2000 election—with two important exceptions. The 2004 election took place in the shadow of war and global terrorism. And this time, in their campaign tactics, the Republicans got right almost everything they had got wrong four years ago.

As a result, George Bush won a clear victory. He took 51% of the vote, 3.5m more than John Kerry, and in absolute terms the largest number of votes any presidential candidate has won. It was a big improvement on 2000, when Mr Bush lost the popular vote. Republicans have increased their majorities both in the House of Representatives and in the Senate. And Mr Bush's majority was carved out of a larger electorate (Curtis Gans, of the Committee for the Study of the American Electorate, reckons that 119.8m people voted in 2004, 14.4m more than in 2000). This time, at least, there can be no mistaking the voters' judgment.

Mr Bush's victory is the more remarkable considering the Iraq war has split the nation and the economic recovery is shaky. Half the voters said they thought things were going badly in Iraq and, in economic terms, at home. He won despite, not because of, these things. His victory came from going back to political basics— sticking to one message, having a plan to get out the vote—and doing them better than his opponents.

For a brief period, the race offered the disturbing prospect of a more exact copy of 2000. More than 12

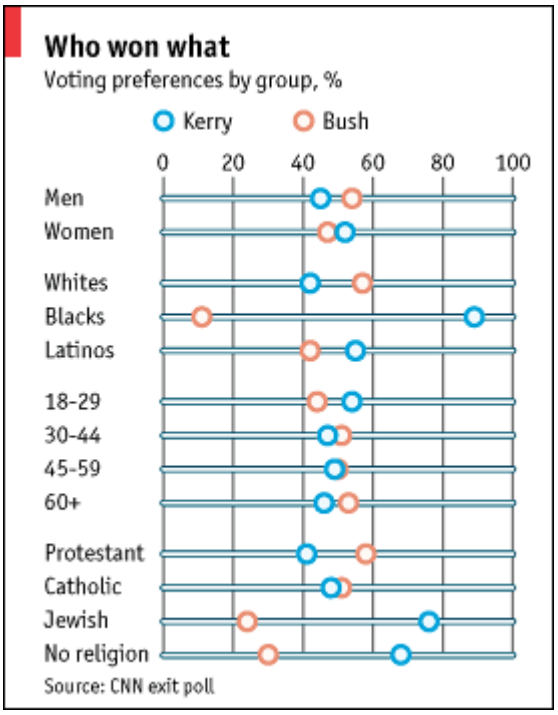
hours after polls had closed in the crucial state of Ohio, it looked as if recounts of disputed ballots could prevent the emergence of a winner for weeks. Democrats thought the number of “provisional ballots” (votes cast in the wrong precincts, requiring further legal confirmation) in Ohio exceeded Mr Bush's margin of victory. But the arithmetic was against them.

Ohio's secretary of state reckoned there were around 150,000 provisional ballots, compared with Mr Bush's margin of around 135,000. So Mr Kerry would have had to have won 90% of the outstanding votes to prevail. It was not a matter, as in 2000, of making up a few hundred votes. Nor was the national vote tied. Facing up to the inevitable, the challenger conceded the day, saying “The outcome should be decided by voters, not a protracted legal battle.”

Back in 2000, Mr Bush and his campaign guru, Karl Rove, hoped to fashion a “permanent governing majority”. In the end, the president had to grind out his re-election victory.

There was no break towards the incumbent in the final days, as sometimes happens when a country is at war. The eve-of-voting opinion polls found the race to be stable, and, in statistical terms, a tie. Mr Bush did not outspend Mr Kerry in the final days, as he had Al Gore. In all, the two sides spent around $750m on television advertising and get-out-the-vote efforts.

Mr Kerry captured 89% of self-identified Democratic voters, more than Mr Gore had got. On the weekend before voting, his campaign staged a rally in Madison, Wisconsin, which was the largest gathering the town had ever seen: 80,000 people lined the street outside the state capitol for half a mile to hear Mr Kerry and his support act, Bruce Springsteen (“looks like Senator Kerry draws a pretty good crowd”, said The Boss, laconically).



The Bush campaign sometimes thought Mr Kerry's undoubted weaknesses as a candidate meant he was ripe for the plucking. Yet, if anything, the challenger had the better of the last month's campaigning, confirming his reputation as a good finisher. A successful performance in the three televised debates was followed by two weeks of bad news from Iraq, culminating in a report that hundreds of tons of high explosives had gone missing from a weapons site. Even a last-minute video message to voters from Osama bin Laden did not seem to have made much difference.

In fact, as *The Economist* went to press, the only state certain to have switched sides from 2000 was a pick-up for Mr Kerry (New Hampshire), though Mr Bush was ahead in two states where the vote was still being counted, Iowa and New Mexico, both of which Mr Gore had won.

The president's increased margin in the electoral college is due almost entirely to demographic change, not a decisive shift in the pattern of state votes. Because people are moving to Republican-voting states in the sunbelt, the president's electoral-college total rose even without winning any states from Democrats.

The seeds of victory

So what explains a performance that was better than in 2000 and more impressive than seemed likely during a race that remained neck-and-neck until voting day? The answer is a number of small shifts, and one potentially large one.

There was an incremental shift in America's ideological make-up. In 2000, half the voters described themselves as moderates and 29% as conservative. This time, the share of self-described moderates fell to 45%, and that of conservatives rose to 33%. In other words, America took another small step to the right.

Turnout rose, but not enough to help Mr Kerry

Turnout rose, but not enough to help Mr Kerry. Democrats argued that a high turnout would mean lots of first-time voters, who would tend to vote for them. Surveys before the vote found that new voters favoured Mr Kerry over Mr Bush by about two to one. They tended to be younger, more likely to consider themselves “working-class” and to go to church less often. Democrats hoped the electorate would rise above 120m, or more than 60% of eligible voters.

In fact, at 59.5%, the estimated figure was the highest rate since 1968 and the rate of increase since 2000 was almost twice as great as it had been in 1996-2000. Rhodes Cook, a non-partisan political analyst, argues that a rise in turnout usually forecasts a change in party control (as happened in 1992 and 2000). This time, it did not.

Mr Kerry won first-time voters convincingly, by 54% to 45%. But there were not enough of them. Only 11% of people went to the polls for the first time—only slightly more, as a share of the total, than in 2000. Mr Kerry did equally well among young voters (18-29 years old), his most supportive age group. But they comprised the same share—17%—as before. He even won independent voters by 50% to 47% (most first-time voters register as independents). Mr Bush is the first president for many years to lose the independent vote.

But offsetting all this was Mr Bush's success at mobilising his base. In 2000, 39% of those who voted identified themselves as Democrats, compared with 35% as Republican. This time, the shares were equal at 37% each. This was the more remarkable because Democratic registrations have been increasing faster than Republican ones this year. Republicans may not have done so well at registering new voters, but they were much better at getting their supporters (new and old) to the polls.

Republicans were much better at getting their supporters to the polls

As a result, the party managed to consolidate its base of support in Republican-voting areas, while eroding Democratic votes in swing areas. For example, Mr Kerry did as well as Mr Gore in the Democratic strongholds of Florida (Miami and the south-east) and of Ohio (Cleveland and the north). But Mr Bush increased his margins in Republican strongholds (Florida's Panhandle, rural Ohio), while winning several counties in swing areas that he had lost in 2000 (such as Osceola County in Florida's I-4 corridor).

This reflects the party's greater success at get-out-the-vote (GOTV) efforts. Both parties spent roughly the same amount on contacting voters, some $125m each (for Republicans, that was three times their budget in 2000). But while Republicans ran their GOTV operations themselves, staffing them largely with local volunteers, Democrats relied more heavily on independent groups, such as America Coming Together, who were not supposed to co-ordinate their efforts with the Democratic Party. Anecdotal evidence suggests the Republican approach was more effective, or at least worked well enough to neutralise the Democrats' traditional advantage in voter turnout.

Because they could co-ordinate their efforts with the campaigns, Republicans could create precinct lists, with targets for voter turnout precise to two decimal figures. In West Allis, a blue-collar suburb of Milwaukee, Wisconsin, clean-cut college students in pressed white shirts sat with Palm Pilots and a big box of Krispy Kreme doughnuts, monitoring the flow of voters into the polls. As voters came in, the volunteers crossed their names off pre-programmed lists; the remaining names went to a central site in the state, so that likely Republican voters who had not yet come to the polls could be contacted.

The students sneered at the effort by Kerry supporters to do the same more haphazardly. “The guy from MoveOn.org stopped in here once and tried to take the voter list,” one said. “But these folks wouldn't let him. He wasn't very nice.”

But perhaps the most important explanation for Mr Bush's success was the unexpected appearance of “moral values” as the top issue of the campaign. In exit polls, more people said this was the most important issue for them than mentioned the economy, Iraq or terrorism. Four-fifths of those who put moral values first voted for Mr Bush.

Exactly what this means, however, is not clear. On the face of it, it suggests that issues such as gay marriage and abortion trumped the war on terrorism and the economy (Ohio alone lost 200,000 jobs in the past four years). In another Milwaukee suburb, a mother wearing a crucifix around her neck left the polls with her daughter, a first-time voter in ripped jeans and an oversized black T-shirt emblazoned with a giant skull. Both voted for the president, citing his pro-life views. All 11 states that held ballot initiatives to ban gay marriage approved them. Together with the Republican success at turning out the base, that suggests Mr Rove's ambition to win the 2004 election by using social issues to mobilise 4m “missing” evangelical Protestants (who, he says, could have voted for Mr Bush in 2000 but did not) worked triumphantly.

Yet there is counter-evidence. When asked directly about their attitudes to abortion, the responses this time were no different from 2000: 55% said it should be always or mostly legal. On gay marriage, 26% approved and 35% supported civil unions. So it is possible that “moral values” are not just a matter of social conservatism but also code for trust in the candidate, or respect for a man's willingness to take a stand—where Mr Bush won easily. Mr Kerry never quite managed to persuade voters of his leadership qualities.

Now turn right?

What might the manner of Mr Bush's re-election mean for a second term? In his victory speech, he appealed directly to Mr Kerry's supporters: “I will need your support and I will work to earn it.” But, having won the popular vote, he has a mandate for a programme, including radical tax reform and changes to Social Security, with little Democratic support. By increasing his party's control of Congress, he is nearer the point of being able to use the legislature like a parliament, rubber-stamping his proposals without much involvement of the other party. And given his strong support from social and religious conservatives, he may be tempted to consolidate that support by proposing, say, like-minded judges for the Supreme Court.

Mr Bush's victory has spared America the pain of another indecisive vote. But it opens up worries of its own for government in the second term.

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Two snapshots in Ohio

How Kerry lost

Nov 4th 2004 | CUYAHOGA COUNTY
From The Economist print edition

A contrast in vote-pulling strategy

MURRAY WILLIE is 52 years old and he had never voted before. Tina Goins, who is 39, had not voted for a decade. But on November 2nd they and many other blacks of inner-city Cleveland braved the pouring rain to vote for John Kerry. “Bush destroyed our country,” Ms Goins explained. There was plenty of Bush-hatred in the polling stations of downtown Cleveland.

Mr Kerry needed a big win in such Democratic strongholds to make up for the Republicans' muscle in more conservative parts of Ohio. Lots of middle-class liberals came from as far away as California and New York to show first-time voters how to use punch-card machines, and to keep an eye open for any signs of voter intimidation. Paid campaign canvassers went out to pull in voters. Black radio stations urged people to turn out: “One day of rain or four years of pain,” as one of them put it. It worked quite well, up to a point.

Half an hour's drive away in Parma, Ohio's seventh-largest city, a rival operation was at work. This part of Cuyahoga County is also pretty solid for the Democrats. Many of its people have their roots in eastern Europe, and the Roman Catholic church is strong in the area. This was something the Republicans targeted.

The clean-cut students outside the polling station at Normandy High School held Bush-Cheney signs. “Please vote pro-life today,” said one. “Who shares your values?” asked another: anti-abortion George Bush, obviously. The students came from the Catholic University of America in Washington, DC,and Jerry Falwell's evangelical Liberty University in Virginia. In 2000 the Republicans virtually ignored Cuyahoga County. This year, they set up seven offices and several hundred volunteers arrived to get out the known Republican vote and lure away socially conservative Democrats.

The contrast helps to show why Mr Kerry lost Ohio. In downtown Cleveland, though the black turnout was big, it was not big enough to make up for Republican gains elsewhere in the state. At the same time, the Republican grass-roots operation was startlingly efficient, even in traditionally Democratic areas. Although Mr Kerry won Cuyahoga County by more than 217,000 votes—better than Al Gore did in 2000—it was too little to tip the state his way.

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The race in retrospect

On the trail

Nov 4th 2004
From The Economist print edition

Bribe of the campaign

“Mary Poppins hasn't voted here in a long time. Michael Jackson hasn't.”

The sheriff of Defiance County, Ohio, on new names registered by Chad Staton, who was paid for his fake registrations in crack cocaine. cnn.com, October 19th

Teresa moment of the campaign

“Now shove it.”

Teresa Heinz Kerry in a disagreement with a journalist from the right-wing Pittsburgh Tribune-Review. July 25th

Flip-flop of the campaign

“I actually did vote for the $87 billion before I voted against it.”

John Kerry tries to explain the Senate voting system. March 16th

Offspring of the campaign

“Overwhelmingly, Americans want to rock the vote with Alexandra over the other political daughters.”

According to Heavy.com's Political Ho Down, Alexandra Kerry won the vote for sexiest political daughter. New York Post, November 1st

Bumper-sticker of the campaign (1)

John Kerry—bringing complete sentences back to the White House

Bumper-sticker of the campaign (2)

Bush-Cheney—Four More Wars

Endorsement of the campaign

“I wouldn't kick President Bush out of my bed, although I do think he needs some sassy highlights.”

Carson Kressley of “Queer Eye for the Straight Guy”. “The Big Idea with Donny Deutsch”, CNBC, February 4th

Heart-throb of the campaign

“He walked right up to me and gave me a hug and I almost fainted. His skin was so soft. He smelled so good. His cologne lingers on my jacket. I am never washing it.”

Barbara Pratte of Nashua, New Hampshire, on John Edwards. Atlanta Journal-Constitution, January 27th

Bushism of the campaign

“Too many good docs are getting out of business. Too many OB/GYNs aren't able to practise their love with women all across this country.”

George Bush suggests something inappropriate while campaigning in Missouri. September 6th

Scariest moment of any campaign

“Yeeeeeeaaaaaaaaahhhhhhhh.”

The now legendary Dean scream after Howard Dean lost the Iowa caucus. It was the beginning of the end for his insurgent campaign. January 19th

Kerryism of the campaign

“Everybody told me, ‘God, if you're coming to Canonsburg, you've got to find time to go to Toy's, and he'll take care of you'. I understand it's my kind of place, because you don't have to—you know, when they give you the menu, I'm always struggling: Ah, what do you want? He just gives you what he's got, right? ...whatever he's cooked up that day. And I think that's the way it ought to work, for confused people like me who can't make up our minds.”

Mr Kerry struggles with meal decisions. New York Times, September 6th

Macho man of the campaign (1)

“I don't fall down, that son of a bitch knocked me over.”

Mr Kerry, on a ski-trip in Idaho, was brought down by his new Secret Service detail. New York Post, March 21st

Macho man of the campaign (2)

“Fuck yourself.”

Vice-President Dick Cheney to Senator Patrick Leahy on the Senate floor, upon being asked about Halliburton. Washington Post, June 25th

And looking forward

“Absolutely. I think, you know, because why not?”

Arnold Schwarzenegger favours amending the constitution to allow foreign-born Americans to run for president. “60 Minutes”, CBS, October 31st

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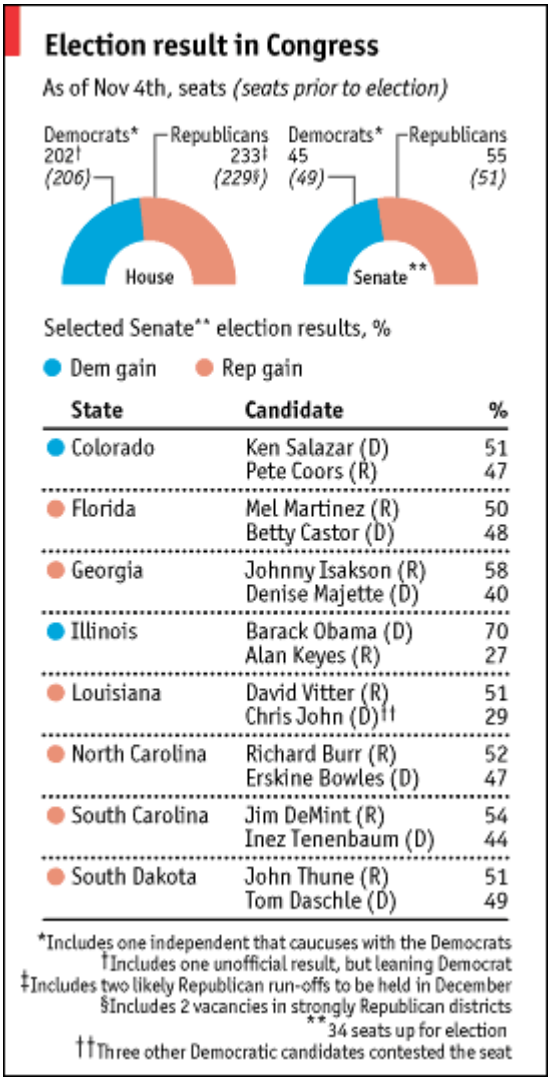
Congress

The Republican grip tightens

Nov 4th 2004 | WASHINGTON, DC
From The Economist print edition

The Grand Old Party increases its majorities



THE Republicans' victory on November 2nd went far beyond the White House. The closely-divided Congress shifted in a distinctly conservative direction in both chambers. In the Senate, the Republicans looked likely to pick up four seats, increasing their tiny 51-49 majority to a more sizeable 55-45 margin (counting Jim Jeffords, nominally an independent, as a Democrat). In the House of Representatives, Republicans looked likely to pick up at least four seats. (This includes two House seats in Louisiana, which will be decided by a run-off election in December. One New York district was still unclear as *The Economist* went to press.) Republicans will probably then hold 233 seats, with 201 probably held by Democrats and one by a left-leaning independent.

The Democrats' most obvious loss was their Senate leader, Tom Daschle (see box). But the disappointments went much further, as Democrats lost a swathe of Senate seats across the South. In five southern states—Georgia, South Carolina, Louisiana, North Carolina and Florida—Senate seats were open thanks to Democrats retiring or (in the case of John Edwards) running for vice-president. The Republicans won every one. The narrowest squeak was Mel Martinez, George Bush's former secretary of

housing, who was not declared the winner of Florida's Senate seat until Wednesday morning.

The Democrats had a few bright spots. Barack Obama won resoundingly in Illinois (see article). And in Colorado Ken Salazar, the state's stetson-topped attorney-general, beat Pete Coors, the beer tycoon. But elsewhere the Republicans held their vulnerable seats, even with mediocre candidates. Tom Coburn, a firebrand conservative doctor, succeeded Don Nickles as senator from Oklahoma. Despite the pall of nepotism, Lisa Murkowski hung on to the seat she inherited from her father as senator for Alaska. And in Kentucky Jim Bunning squeaked to re-election, despite comparing his swarthy opponent to one of Saddam Hussein's sons.

The tide of social conservatism that swept Mr Bush back into the White House also lay behind the Republican gains in Congress. Exit polls in several of the Senate races suggested that voters regarded “moral values” as their top concern. Many Republican candidates painted their opponents as “liberal”, while highlighting their own socially conservative credentials. In Louisiana, for instance, David Vitter became the state's first Republican senator since Reconstruction thanks, in large part, to his uncompromising stance on abortion: he stated flatly that there should be no exceptions, a message that played well in this heavily Catholic and evangelical state. In South Carolina, Jim DeMint not only pledged his opposition to all abortions, but announced that neither homosexuals nor unmarried pregnant women should be able to teach in public schools. In North Carolina, the victorious Republican, Richard Burr, devoted much of his campaign to tying his opponent, Erskine Bowles—one of Bill Clinton's former chiefs-of-staff—to his former employer.

Republicans also gained in the House, thanks largely to redistricting and the power of incumbency. With a few exceptions (notably Philip Crane, the longest-serving House Republican, who lost in Illinois) incumbents coasted to victory. In Texas, redistricting (masterminded by Tom DeLay, the majority leader in the House) eliminated almost all the seats held by conservative Democrats. Four of the “Texas five” Democrats targeted by Mr DeLay lost. Only Chet Edwards, who serves the district covering Mr Bush's ranch, hung on.

What does this Republican shift mean for America's legislature? Both chambers have become more conservative, not just because there are more Republicans but because the new Republicans are a particularly conservative lot, both economically and socially. Moderate Republicans in Congress are an endangered species.

At the same time, the Senate Democrats are in a much weaker position. They need to pick a new leader; Harry Reid of Nevada is the current number two, but others may want the job. Equally, the Democrats need to devise an effective political strategy. Even with total party unity and a possible convert (there are rumours that Lincoln Chafee, a moderate Republican from Rhode Island and fierce critic of Mr Bush, may switch parties), the Democrats are now some way from a majority.

Given Mr Bush's clear mandate, as well as the trends in Congress, it will be hard for Democrats to obstruct the president's second-term agenda. Indeed, with just a handful of defections, the Democrats could slip below the 40 votes they need to filibuster, or block, legislation or presidential appointments. Two flashpoints will be the likely Supreme Court nominations and Mr Bush's tax-cutting agenda. Getting conservative judges on to the Supreme Court is a high priority for the social conservatives who won the election for Mr Bush, but a red flag for the Democrats. The challenge for Mr Daschle's successor will be deciding what, and how, to block.

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The South Dakota Senate race

Daschle's downfall

Nov 4th 2004
From The Economist print edition

But the new man can bring pork home too

AFP

Minority leader in retreat

IN THE end, George Bush's long coat-tails and the fury of social conservatives were too much for Tom Daschle. Despite the loads of pork he has brought home to South Dakota over the years, the Senate minority leader—the most senior elected Democrat in Washington—lost 51%-49% to a charming young Republican ex-congressman, John Thune. It was the first loss by an incumbent Senate party leader in half a century. Either Harry Reid of Nevada or Christopher Dodd of Connecticut might be his successor in the minority leader's job.

The contest was expensive, and hard-fought. Mr Thune, an anti-abortion fiscal conservative, said that Mr Daschle was out of touch with the state, suggested he was a bad Catholic and questioned the lobbying work of his wife. The incumbent, in turn, filed a legal challenge at the eleventh hour, claiming that Republicans were harassing American Indians, who account for over 8% of South Dakota's 764,000 people, by noting their vehicle-licence numbers and following them from the polls. A federal judge, once Mr Daschle's personal lawyer, issued a temporary restraining order, but the suit served only to inflame Mr Thune's supporters still more.

The Republicans triumphed by appealing to social conservatives. This helped them to bridge the divide that separates South Dakota not just into two time-zones but into two different universes on either side of the Missouri river—“east river”, a prairie expanse whose population clusters along Interstate 29 and tends to vote liberal, and “west river”, the ruggedly beautiful home of ranchers, farmers and long-time conservatives. Mr Thune managed to limit Mr Daschle's margin of victory in many Democratic strongholds, and won a comfortable victory in Pennington County, a solidly Republican patch in the west which includes Rapid City.

Although the loss of Mr Daschle's influence in Washington will surely be felt in South Dakota, Mr Thune's connections to the White House should help to soften the blow. After all, George Bush urged him to run for the Senate in 2002—a race he narrowly lost to the Democrat, Tim Johnson—at a time when Mr Thune was considering a run for the governor's office instead. Now he will be Mr Johnson's colleague in the Senate.

The importance the Republican Party put on defeating Mr Daschle this year was evident in campaign visits by everyone from Bill Frist, the Senate majority leader, to Laura Bush. “The Bush administration has some debts to pay to John Thune,” says Bill Richardson, a political scientist at the University of South Dakota. “I don't think we're going to be at the back of the line.”

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The Illinois Senate race

Obama's second coming

Nov 4th 2004 | CHICAGO
From The Economist print edition

Reuters

Victory for a rising star

REPUBLICANS may try to blame the result on Alan Keyes, their candidate, who was hopeless; they may talk about the meltdown of the state's Republican Party; but they lost the race for the open Senate seat in Illinois for a much simpler reason. In Barack Obama, they were up against a star.

Mr Obama's margin of victory, 70% to 27%, was remarkable for a candidate with such a left-leaning voting record, even in this solidly Democratic state. He had held an enormous lead in the polls for months, and his campaign war-chest was bulging. In the end, though, his stance on the issues seemed to matter less than the man himself. His extraordinary life story—son of a brief marriage between a Kenyan economist and a white woman from Kansas, brought up in Hawaii and Indonesia, the first black editor of the *Harvard Law Review,* and a civil-rights lawyer before he ran for the state Senate—attracted the attention of national magazines months ago.

Mr Obama's real political breakthrough, however, came during the Democratic convention in July. His keynote address to the party faithful and millions of television viewers electrified Democrats and made him a celebrity. Rather than thumping the black drum, he spoke, in the sort of soaring phrases usually heard from a Baptist pulpit on Sundays, about transcending colour and religion and giving Americans what they all desire: good jobs, good schools, affordable health care, a just society. The ideas were familiar; the delivery was stunning.

Suddenly, invitations poured in from across the country. In recent weeks he has appeared at campaign events in various states, donating more than $268,000 to Democrats in tight Senate races and speaking on their behalf. That is virtually unheard of for a man not yet elected to national office.

Mr Obama is the candidate America's liberal elite has long dreamed of: poised, thoughtful, eloquent, internationally minded, intellectual—and black. One of the reminiscences he shares with more sophisticated urban voters is that, as a boy, he was a Protestant attending a Catholic school in a majority Muslim country. Such a man is not typically elected in rough-and-tumble Illinois. Or anywhere in America, for that matter. Mr Obama is unlike any politician to emerge in years.

To win his seat, Mr Obama had to appeal not only to inner-city blacks and white liberals, but also to suburbanites and rural voters downstate. Here he showed his other side: ambitious, disciplined, willing to downplay his exotic background and focus on bread-and-butter issues. So good was he at transforming himself that union members at a rally in blue-collar Peoria several months ago seemed to know nothing of his international roots. “He went to a fancy school and could have gone to work as a fancy lawyer,” said one man in a union cap, “but instead he's here working for us.”

Mr Obama says his first priority in Washington will be health insurance for the poor. His biggest challenge, however, will be rising to the mountainous expectations that have soared around him. He has

succeeded largely by neutralising race as an issue; but his autobiography, written before he ran for public office, illustrates how much he has thought about it. “In many parts of the South, my father could have been strung up from a tree for merely looking at my mother the wrong way,” he wrote, and went on:

> In the most sophisticated of northern cities, the hostile stares, the whispers, might have driven a woman in my mother's predicament into a back-alley abortion—or at the very least to a distant convent that could arrange for adoption. Their very image together would have been considered lurid and perverse, a handy retort to the handful of soft-headed liberals who supported a civil-rights agenda.

Now Mr Obama is on his way to the Senate. The lot of a first-term senator is unglamorous, but his stardom is likely to afford opportunities enjoyed by few freshmen. How he uses them should make it clearer whether his supporters are right: many of them hope that he may one day be America's first black president.

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Ballot initiatives

We the people

Nov 4th 2004 | LOS ANGELES
From The Economist print edition

Selected state referendum results*, %

State	Issue	Yes	No
Alaska	Allow people over 21 to grow, sell, or use marijuana	43	**57**
Arizona	Immigration checks for receipt of benefits and proof of citizenship to vote	**56**	44
California	Funding for stem-cell research	**59**	41
	Relax "three-strikes" law, applying it only to violent and serious crimes	47	**53**
Colorado	Allocate state's electoral-college votes on a proportional basis	34	**66**
Florida	Cap lawyers' fees in medical liability cases	**64**	36
	Require parental notification of teenage abortions	**65**	35
Montana	Allow growing and possession of marijuana for medical purposes	**62**	38
Washington	Allow charter schools	42	**58**

States passing referendums that disallow gay marriage:
Arkansas, Georgia, Kentucky, Michigan, Mississippi, Montana, North Dakota, Ohio, Oklahoma, Oregon, Utah

Sources: Initiative and Referendum Institute, University of Southern California; state election agencies *As of Nov 4th

Voters in 34 states were able to decide 163 things by themselves

THE voice of the people has a conservative ring, and not just in electing a president. Faced with some 163 ballot initiatives in 34 states, voters chose to ban homosexual marriage; to reject the easier use of marijuana; and to make things tougher for illegal immigrants. They also decided not to upset the winner-takes-all norm in presidential elections: voters in Colorado decisively turned down a proposal to divide the state's nine electoral-college votes in proportion to the vote for each party.

It may be a mistake to draw national conclusions from initiatives in states or cities. Washington state's decision, for example, to ignore Bill Gates and reject charter schools is unlikely to reflect wider sentiment across the country. Nor should anti-drug zealots get too excited by the decision of Alaska and Oregon to reject more liberal laws on marijuana use: Oregon already allows the medical use of marijuana, and Alaska's Supreme Court ruled recently that adult Alaskans have the right to possess up to four ounces of pot for their own use. Moreover, Montana's voters decided by a two-to-one majority on election day to allow the medical use of marijuana.

On the other hand, 11 states, from libertarian Montana and Oregon to Bible-belt Kentucky and Arkansas, approved proposals outlawing same-sex marriage. In advocating a constitutional amendment to this effect, George Bush appears to be in tune with a national mood.

Is there such a mood on the issue of immigration? America-wide, probably not. But in the states that border on Mexico no politician can afford to ignore the voters' feeling that illegal immigration is too easy and too rarely punished. Just as California's voters ten years ago approved Proposition 187, which sought to deny benefits to illegal immigrants and their families, so this week Arizona's voted decisively for Proposition 200. This requires those applying for "public benefits" to prove their identity, and to prove their citizenship if they wish to vote. It also threatens fines and imprisonment for officials who fail to report an illegal immigrant.

AP

A minority interest

Perhaps the biggest beneficiary of this week's direct-democracy voting is California's governor, Arnold Schwarzenegger, who confirmed his ability to connect with and influence the voters. For example, by dint of a week's worth of television commercials, the erstwhile Terminator ensured defeat for Proposition 66. This would have amended California's “three-strikes” law by requiring the third crime to be serious or violent. Advocates said it would stop criminals being sentenced to life terms for the theft of a pizza slice; opponents said it would let 26,000 current prisoners apply for re-sentencing—and potential release. Mr Schwarzenegger declared that its rejection was “a no to criminal loopholes and a yes to safer streets”.

Californians, despite their state's huge debt, also joined the governor in saying yes to borrowing another $3 billion to pay for stem-cell research. In one way, this was a Hollywood cause: Michael J. Fox, an actor stricken with Parkinson's disease, spoke up for it, and the late Christopher Reeve's name was often invoked (though Mel Gibson, impelled by his religious belief, asked Mr Schwarzenegger to oppose the proposition). In another way, it was a challenge to Mr Bush, an opponent of expanded stem-cell research. The governor, despite campaigning for Mr Bush in Ohio, remains Republican-lite. Yet, after Mr Bush's victory, how will Mr Schwarzenegger's brand of Republicanism fare over the next four years?

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The governors' races

Discontented

Nov 4th 2004 | ST LOUIS
From The Economist print edition

Voters show signs of a short fuse

WELL before election day, some Americans had expressed their impatience with their states' governors. Olene Walker, the Republican governor of Utah, and Bob Holden, the Democratic one in Missouri, were both turfed out by their parties some months ago, and the fight for their seats unleashed unprecedented spending. On the day, the Republicans held Utah and gained Missouri, where the new governor will be Matt Blunt, the young (too young, say some) secretary of state.

Voters in other states also gave their governors short shrift. In Indiana, Joe Kernan, a Democrat who took office after the governor's sudden death last year, was unseated in his first test by Mitch Daniels. (Mr Daniels, a former White House budget chief, enjoyed George Bush's favour, which did him no harm.) In New Hampshire, John Lynch, the Democrat, defeated Craig Benson, who had served a single term. Although governors breezed back for second terms in North Dakota, Vermont and North Carolina, discontent was in the air.

Small wonder, perhaps, that the governors of Montana, Washington state and West Virginia chose not to run again. A record torrent of out-of-state money poured into Montana, where Brian Schweitzer, a farmer, won the governorship for the Democrats.

All in all, with Washington state still too close to call, election day brought two gains for the Republicans and two for the Democrats. Republicans still hold most of the governorships, and seem likely to keep the upper hand.

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Lexington

The great Democratic crack-up

Nov 4th 2004
From The Economist print edition

Hillary may not be the best person to put her party together again. But she is better than the rabid left

NOVEMBER 2nd, which will be remembered as the blackest of days for the Democratic Party, did not dawn that way. Democrats had thought that the stars were aligned in their favour—a problem-ridden war in Iraq; a president with iffy job-approval ratings; a sputtering economy; and, on the day, a huge voter turn-out together with exit polls that showed John Kerry with a clean sweep of the battleground states. By early next morning elation had turned to despair. The battle for the future of the Democratic Party had begun in earnest.

How is this battle likely to shape up, and who will be the warriors? Mr Kerry and his running-mate, John Edwards, are destined for the terrible limbo that the People's Party reserves for its failed champions. Mr Kerry's fate will be a little easier to bear than Al Gore's: he has a fabulously rich wife, a brace of mansions and a seat in the Senate. But he will draw bitter criticism for running an ill-conceived campaign. Mr Edwards is well on the way to becoming a man with a brilliant future behind him. What did he add to the Democratic ticket other than a boyish smile and a well-honed stump speech? He failed to deliver either of the Carolinas to the party (even though he was born in the southern one and represented the northern one in the Senate). He has no clear ideological constituency.

Hillary Clinton is the big Democratic winner from Tuesday night's debacle. Mrs Clinton is very much the front-runner for the presidential nomination in 2008. By then the country may be desperate for respite from Republican rule and the Iraq war may at last be over. She has plenty of credibility with the left because of her record (particularly on health-care reform) and her sex (remember that the majority of voters in the Democratic primaries are women). But she has moved to the centre since becoming a senator for New York: she has been careful to support the Iraq war and has found herself a seat on the Senate Armed Services Committee. The Clintonistas control most of the party machinery, from think-tanks such as the Centre for American Progress to get-out-the-vote organisations such as The Media Fund. And her husband is one of the best political operators on the Democratic side.

Yet Mrs Clinton can expect no coronation. The left of the Democratic Party is spoiling for a fight over what it sees as the party establishment's instinctive centrism. The left is convinced that the problem with Howard Dean was not the message but the great screamer himself. And they are equally convinced that the best way to beat George Bush is to fight as hard for the left of the political spectrum as Mr Bush has fought for the right. They believe that Mr Kerry's campaign caught fire only when he decided to confront

the administration over Iraq. And they argue that the left needs to build a network of supporting institutions—from think-tanks to pressure groups—that will be able to drag their party (and the nation) in their direction. For them, the internet-based campaigns of groups such as MoveOn.org are harbingers of a rebirth of left-wing politics that will return the Democratic Party to its radical populist roots.

First, decide which end has the head

The Democrats certainly need to engage in a vigorous debate about the future of a party that has been in relentless decline for the past 50 years. A machine that once enjoyed a huge advantage in voter registration is almost at parity with Republicans; a party that once lorded it over Capitol Hill is now a minority in both houses of Congress, as well as being locked out of the White House. Worse, the defection of the white working class to the Republicans has left behind an awkward alliance of the upscale and the downscale—of educated elites (with a few billionaires thrown in) and ethnic minorities.

Moving the party farther to the left is unlikely to do the job. Democrats need to learn how to relate to a culturally conservative country. Mr Kerry made some feeble attempts to do this by claiming that he was a champion of “conservative values”, and by donning goose-hunting kit from the L.L. Bean catalogue. But this did not disguise his (Swiss) boarding-school roots, or the fact that his party is dominated by urban professionals who have little in common with flyover America, or his party's failure to come to terms with American religiosity. Supporting partial-birth abortion may be fine in France, where only one in ten people say religion plays a very important role in their lives, but not in America, where six in ten people do.

If the Democrats have never been entirely at home in church, they also often seem ill at ease in the suburbs: the world of family homes, anonymous office parks and stores the size of football pitches. In 1996 Bill Clinton proved that Democrats can win the suburbs by focusing on issues such as crime and education. Since then they have been in retreat. The danger for the Democrats is that they will shrivel to their metropolitan heartlands. They may be tempted to emphasise cultural issues, such as gay marriage, that galvanise educated professionals but have little resonance in the suburbs. And they may even be tempted to progress from Bush-bashing to sneering at middle America.

Mrs Clinton may not be the ideal candidate to put the Democratic donkey back together again. But she is better than the Michael Moore left that flourishes so luxuriously in college towns. (What happened to the much-ballyhooed youth vote in this year's election, anyway?) And she will bring two big advantages to her party. She is extraordinarily disciplined, far more so than her husband. And she has a Bush-like ability to bring out the worst in her opponents.

Conservatives may rule the suburbs at the moment. But will they woo security moms if they come across as misogynists who want to keep a strong woman down? Hillary's time may yet come. But, for the moment, the donkey is riderless.

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Crackdown in Venezuela

Red tide rising

Nov 4th 2004 | CARACAS
From The Economist print edition

Reuters

Having consolidated a near-total grip on power, Hugo Chávez is preparing a set of laws to repress many forms of dissent

Get article background

JUST last August, after months of unrest and an attempted coup, 4m Venezuelans voted against Hugo Chávez in a recall referendum, more than had voted him in as president in 2000. Yet he won the referendum, and has now completed a stunning turnaround. Local elections on October 31st left his allies controlling 20 of the country's 23 states, plus Caracas, the capital, and they looked likely to bag the state of Carabobo too after the completion of a disputed recount.

No elected leader of the country has ever wielded such power. With a majority in parliament, a tightening grip on the judiciary, the unquestioning loyalty of the military high command and a seemingly endless flow of revenues thanks to high oil prices, the “red tide” that the self-styled revolutionary predicted, referring to his own party colours, is now lapping around the necks of his opponents.

After their referendum defeat, the two dozen anti-Chávez parties could not agree on a common electoral strategy. In some regions they competed against each other, virtually guaranteeing a *chavista* victory. A commission of experts set up to analyse their allegations of fraud called for voter abstention, compounding the damage. Virtually the only survivors of stature are Manuel Rosales, governor of the far-western state of Zulia, and a couple of young mayors from the fledgling Justice First party, whose base is Caracas and the adjoining state of Miranda.

What will Mr Chávez do with all this power? Part of the answer lies in a set of repressive laws, currently in the legislative pipeline, which critics say will outlaw most forms of dissent and severely restrict freedom of expression. First in line is a radio and TV bill ostensibly aimed at protecting children by curbing violent and sexually explicit content. But its vague wording will, for example, allow the government to suspend transmission or, ultimately, withdraw a licence, for content which is “contrary to the security of the nation”. Already, private TV stations which have been fierce critics of Mr Chávez are showing signs of self-censorship.

Then there is the partial reform of the penal code, which would outlaw virtually every form of protest the opposition has attempted over the past three years. “Intimidating” a senior public official (for example, by banging pots and pans outside his or her house, a popular form of protest) would carry a sentence of three to eight years in jail. Causing panic by spreading “false information”: two to five years. Promoting “disobedience”, even in private: up to six years behind bars.

Article 350 of the 1999 constitution, drafted by the *chavistas* themselves, enshrines the right to disobey a government that undermines human rights. But a proposed terrorism law would turn many forms of civil disobedience, such as blocking streets, into terrorist acts, with correspondingly severe penalties. And a national police bill would put control of all local police forces, in effect, into the hands of the interior ministry.

The government has already begun to harass dissidents. Leading members of Súmate, an NGO which amounts to an opposition elections unit, face jail terms of up to 16 years. Their alleged crime is to have conspired with a foreign power—the United States—to overthrow the government. Súmate accepted a grant from the National Endowment for Democracy, which is funded by America's Congress and which, prosecutors allege, is a front for the CIA. A neutral judge might well throw the case out. Unfortunately, judges who defy the government tend to lose their jobs; most have only provisional positions. And the supreme court, already largely pro-Chávez, is to be expanded from 20 to 32 justices, who will be appointed by the pro-Chávez majority in parliament.

An even clearer case of distortion of justice is that of General Francisco Usón, a former finance minister in Mr Chávez's government, who was jailed last month for five-and-a-half years by a military tribunal for allegedly slandering the armed forces. The general had offered a technical opinion on television, as a combat engineer, on the workings of a flame-thrower, in the context of press allegations that one had been used on soldiers in a punishment cell. Two of the soldiers died, but seven months later no one has been charged, much less sentenced, for their deaths; the only person in jail is General Usón. The defence minister, General Jorge Luis García Carneiro, minces no words when asked about the case. Anyone, he says, civilian or military, who insults the armed forces can expect similar treatment. *Viva la revolución*.

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Brazil's mid-term elections

Lula at half-time

Nov 4th 2004 | SãO PAULO
From The Economist print edition

Mid-way through his term, Brazil's president must step up his game

WITH his fondness for football metaphors, Luiz Inácio Lula da Silva might view his presidency thus: shortly before half-time, his team holds a slight advantage. The economy has been performing well, the country's financial defences are more solid and both he and his government remain popular with the crowd. But there are reasons to worry. The central bank, with its eye on the ball of inflation, is raising interest rates to stifle it. The pitch is clogged with bills that could help the government score goals—if only Congress would enact them. And, after local elections on October 31st, Team Lula is not as cohesive as it might be, while the other side has taken new heart. It will take more than a pep talk to extend the lead in the two years until the final whistle and the next presidential election.

For Aldo Rebelo, Lula's political co-ordinator, the Workers' Party (PT) and its coalition allies “emerged broadly victorious” from the municipal vote. The total number of PT mayors more than doubled, from 187 to 411. The coalition will govern two-thirds of Brazil's municipalities. Yet there were serious setbacks. The most grievous was the loss of São Paulo, the biggest city, where Mayor Marta Suplicy fell to José Serra, the man Lula beat to win the presidency in 2002. Mr Serra's victory makes the governor of São Paulo state, Geraldo Alckmin, the likeliest challenger to Lula in 2006. Hardly less painful is the loss of Porto Alegre, a southern state capital that the PT has governed for 16 years. Of the 96 biggest cities the PT will govern 23, six fewer than today.

At first sight, the results look like a vindication of the PT's left wing, which has long grumbled about the government's pursuit of tight fiscal and monetary policies. Raul Pont, the defeated PT candidate in Porto Alegre, blamed his ejection on economic orthodoxy. Luizianne Lins, the newly elected mayor of Fortaleza in the north-east, is from the PT's left and won without her party's support in the first round. She argues that the PT will have to go through a period of “reflection” on economic policy.

The government draws different conclusions. Its policies have “already shown the first results,” says Mr Rebelo. These include an expected growth rate of about 4½% this year, an export boom and more benefits for the poor. In São Paulo, the PT lost not the poor, but the middle class. Mr Rebelo, who belongs to the tiny but moderate Communist Party of Brazil, notes that the PT faltered where it failed to forge electoral alliances. Lula's first task will be to repair those frayed by the election.

That is messy work. The Brazilian Democratic Movement Party, the PT's chief ally in Brasília, the capital, is to decide on November 10th whether to remain with the government or pull out while still backing some of its legislative programme. Mrs Suplicy had rejected a member of the party as her running-mate. Antonio Carlos Magalhães, a senator who is political boss of the north-eastern state of Bahia, has moved from benign neutrality to active hostility and must be coaxed back again.

Much will depend on horse-trading, starting with the re-election of the presidents of the two houses of Congress, which, like so much else in Brazil, requires a constitutional amendment. The government's first priority is to rebuild its constituency in the Senate, where its majority is less than the 60% needed to pass amendments, says Alexandre Marinis of CSFB, an investment bank.

Both there and in the lower house, bills are piling up whose passage would help ensure a successful second half for the government. These include a law on public-private partnerships, designed to spur investment with less strain on the budget; a reform of bankruptcy legislation to encourage lending; and a regulatory framework to reassure investors in infrastructure. Mr Rebelo predicts, unrealistically, that all these can be enacted this year.

On the horizon are hints of bolder reforms. The government talks of making employment laws more

flexible, which could speed up job creation, of laws to promote consolidation among Brazil's many political parties and even of granting formal autonomy to the central bank. The PT's election defeats may now make the party more cautious, especially on central-bank autonomy and labour reform. But that would be a pity. If Lula is wise, he will spend the second half of his mandate attacking rather than defending.

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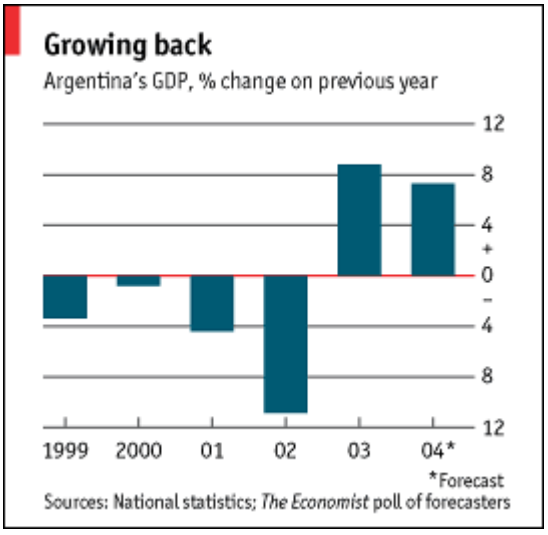
Argentina's debt offer

Short back and sides all round

Nov 4th 2004 | BUENOS AIRES
From The Economist print edition

Argentina's new plan does not appease its creditors

Get article background



A HAIRCUT or a scalping? That is what Argentina's disgruntled creditors are asking themselves after the country's economy minister, Roberto Lavagna, unveiled his latest plan this week to restructure the $100 billion of sovereign bonds that Argentina defaulted on three years ago. Despite speculation to the contrary, the "haircut", or proportion of debt written off, in the new proposal is little changed from what Argentina announced—and creditors rejected—in June.

The basic idea is to offer the bondholders new bonds, worth less than the originals and maturing in 30-40 years. Sympathy-grabbing small investors get a slightly better deal than big foreign creditors, who must put up with a whopping two-thirds discount on the bonds' face value. There are some sweeteners: $1 billion in back interest to those who accept the offer now, and more if the economy grows faster than 3% per year. But the overall haircut is still draconian, paying back a mere 30% or so of the original debt. By comparison, Ecuador offered between 33% and 62% after its default in 1999, and even Russia offered 35% after its 1998 default.

Foreign creditors' groups are disappointed; the Global Committee of Argentina Bondholders, which claims to represent a large chunk of them, said the offer was "far below the general consensus of what Argentina has the capacity to pay." But Argentine officials and many local economists are optimistic. In recent months yields on other emerging-market bonds have dropped, making Argentina's proposed securities look more attractive. And after winning several legal skirmishes, the government seems confident that it can prevent creditors seizing Argentine assets abroad in lieu of payment.

The local consensus seems to be that two-thirds or more of bondholders could say yes. However, the IMF will apparently insist that 80% of bondholders accept the deal before agreeing, in talks this January, to roll over the next instalment of the $14.4 billion that Argentina owes it.

Argentine officials argue that making the offer much more generous would increase the risk of a fresh default later. Though GDP growth could reach 8% this year, according to J.P. Morgan, an investment bank, interest payments alone will be around 10% of next year's budget, and welfare spending will drop in real terms, though around half the population is still below the poverty line. Moreover, Argentina's total debt after restructuring will be around 85% of GDP—roughly the same as before the default, if on easier terms. Meanwhile, argues Luis Secco, an economic consultant in Argentina, convincing more creditors to take up the offer will require little more than "a marginal fiscal effort and the creation of a framework that makes the cash-flow more credible."

That might include better treatment of utility companies, which suffered when the government froze their tariffs after devaluation. The government is likely to try to make progress on renegotiating their contracts before starting talks with the IMF. It could also primp up its debt offer at the last minute. With the restructuring due to be completed by mid-January, Argentina may yet do in two months at least part of what it has put off for three years.

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Crime in the Caribbean

Bubba, Bobo, Zambo and Zeeks

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From The Economist print edition

Domestic and international issues fuel gang violence in the Caribbean

AFTER 30 years in the job, Eddie Seaga plans to step down as leader of Jamaica's opposition Labour Party on November 6th. In the 1970s, the Labour Party fought bitterly to unseat Michael Manley's People's National Party, then on the political left. Unwisely, both sides sought allies among the island's criminal gangs. “When councillors are campaigning, most of them use gunmen as agents,” said Andrew Wheatley, the deputy mayor of Spanish Town, a hard-bitten Jamaican city, last month—retracting quickly after a howl of protest. Jamaican police now count 85 gangs, up from 35 in 1994.

The cost is evident. With 1,214 murders since January in a population of 2.6m, a 50% increase on last year's monthly murder rate, Jamaica has easily topped its own record of violence. Last month the centre of Kingston, the capital, was shut down by gangland shootouts for three days.

Yet violence is on the rise all across the English-speaking Caribbean. The murder rate per head is as high in pretty little places like the British Virgin Islands and St Kitts as in busy Trinidad—around 40% that of Jamaica. Criminal power eases the flow of drugs through the region from South to North America, and the nastiest gangs have partners in London, New York and the Spanish-speaking mainland.

Caribbean governments complain of a deluge of Caribbean criminals deported, mainly from the United States, on completing their sentences—13,000 of them since 1999. Oliver “Bubba” Smith, sent home in 2002 after eight years in New York, used big-city skills and corporate takeovers to build a “One Order” gang, which—until he was killed in July—dominated Spanish Town's crime world. Deportees run gangs on other islands too, or live more quietly as consultants, using overseas contacts to ease export marketing of cocaine, or instructing eager students in credit-card fraud.

However, the deportations are not going to stop. Few countries anywhere—Caribbean islands included—allow foreign convicts to stay. One American ambassador in the region argues that most deportees are not “hardened criminals”. Indeed, some seem barely criminal at all. Marlene Jaggernauth, an energetic Trinidadian, went to the United States at the age of 11, and spent 27 years there. She was sent home last year for two 1996 shoplifting offences; she has no means to support her four children, who are still in Miami.

Moreover, it is too easy for hardened criminals to stay in the Caribbean. Smart traffickers with expensive lawyers face under-staffed state prosecutors and creaky judicial systems. Noel “Zambo” Heath and Glenroy “Bobo” Matthew have resisted extradition from St Kitts to America on cocaine charges since 1996. Samuel “Ninety” Knowles, a Bahamian who allegedly ran a cocaine line from Jamaica through Nassau to the United States and Canada, has held out since 2001. He now argues that he cannot get a fair trial in the United States, having been publicly named by the president under the quaintly-titled Foreign Narcotic Kingpin Designation Act; two Jamaican businessmen arrested in March this year are pushing the same line.

All the same, there have been some successes this year. Big drug gangs have been cracked in Jamaica, the Bahamas and Guyana, with a varying mix of local and outside effort. The Bahamas, where five major gangs have been broken since 2001, is one of the few Caribbean countries where the murder rate has dipped.

Last month Jamaica's national-security minister, Peter Phillips, announced Operation Kingfish, an anti-gang initiative spearheaded by a vetted inter-agency team, with on-board lawyers, more use of intelligence and informers, and international support. As if by magic—though more by coincidence—a British warship two days later nabbed a Colombian speedboat with 1.7 tonnes of cocaine; the crew was

whisked to the United States to be charged.

On land, meanwhile, the Kingfish team is investigating 12 gangs for drugs, extortion and gun-running. But it will need its lawyers. In western Jamaica, 28 suspect speedboats were seized on October 24th; two owners, who had hired a top-class British lawyer, Lord Gifford, immediately sued for the return of 12 of them.

There are tentative signs that Kingston's gang leaders need not be untouchable. Donald “Zeeks” Phipps of Matthews Lane led one side in last month's gang battles. He was arrested on October 17th on ammunition and drugs charges, with a bevy of associates and $150,000 in cash. His political connections are excellent—a half-brother is parliamentary representative for Central Kingston. After Zeeks was arrested in 1998, riots by his supporters shut downtown Kingston for two days; he was released without charge. This time he was charged and made to pay bail—though at $25,000, it will make barely a dent in his wallet.

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India

The bothersome little people next door

Nov 4th 2004 | DELHI
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Instability on the other side of India's borders has a troubling impact at home

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TO ITS smaller neighbours, India is a bullying hegemon, far too ready to throw its considerable weight around. In the space of just a few weeks, Delhi will have played host to senior visitors from Myanmar, Bangladesh, Sri Lanka, Pakistan and Nepal, all of whom will have turned up with grumbles to register. These days, though, the boot is increasingly on the other foot. Several of the once deferential neighbours are in turmoil: and India fears that their instability is in danger of upsetting its own delicate political balance.

India's biggest preoccupation remains Pakistan. A “composite dialogue” that started earlier this year, as part of an elaborate peace process, is to resume later this month. India continues to suspect Pakistani intelligence of fomenting unrest not just in Indian-administered Kashmir but in many other parts of India. In recent months, however, the Indians have been paying greater attention to the threat from other neighbours—either through deliberate action by their governments, or their failure to keep control of their territory.

The closest to a failed state is Nepal, whose King Gyanendra is due in Delhi in late November. After a bloody eight-year insurgency, Maoist guerrillas are in control of 68 of Nepal's 75 districts. The police force has now withdrawn from almost the entire countryside. Only about 100 out of 1,135 police stations are functioning.

Indian diplomats say that a Maoist takeover of Nepal would be the worst possible outcome for India. But

they have little idea how to prevent it. The non-Maoist forces remain divided, despite a semblance of multi-party government. The king controls the army, which India has been helping with military and intelligence support. But this may encourage him to believe in the possibility of a military victory, which most analysts think is now beyond reach, and delay the search for a political settlement until it is too late.

Gloomier forecasters, such as Ajai Sahni, of the Institute for Conflict Management, a Delhi think-tank, fear that if the Maoists do agree to talk peace, it will be merely to discuss the terms of the government's surrender. This may not be imminent, but causes particular concern because of India's own spreading Maoist problem. The two largest of 20-odd Indian Maoist, or “Naxalite”, insurgent groups, the People's War Group and the Maoist Communist Centre, merged last month. Although they entered talks with the government of one state, Andhra Pradesh, they refused to disarm, and low-level violence has continued elsewhere.

Of India's 593 districts, 157 are now affected in some measure by Naxalism—102 of them have been added to the list in the past year. India says that they have strong links with their Nepali counterparts. More important than any practical support, however, would be the ideological encouragement of a Maoist victory in Nepal.

Also high on the list of countries to worry about—worrying to India and the West alike—is Bangladesh, whose foreign minister, Morshed Khan, visited Delhi this week. The ruling coalition of Khaleda Zia includes an Islamist party that is accused by the local opposition and some foreign observers of conniving in the spread of Islamic extremism. Bangladesh has been blighted by a storm of bomb and grenade attacks, one of which, in August, came close to killing most of the leaders of the main opposition party.

Parallels have been drawn between the bomb attacks in Bangladesh and the tactics of some of the dozens of armed insurgent groups that fight secessionist campaigns in India's north-east. After terrorist attacks last month on civilians in the Indian states of Assam and Nagaland, Indian officials stepped up their criticism of Bangladesh for harbouring and supporting militants. Mr Khan was told again that Bangladesh must destroy “training camps”, though his government denies their existence and some independent observers say they amount to very little.

A similar message was conveyed in softer tones to Than Shwe, the top general in Myanmar's ruling junta, when he was in Delhi late last month. India believes that some 1,500 insurgents are based across the border from the Indian state of Manipur. But this is not seen as a result of government policy. Rather, as China and Thailand also know to their cost, Myanmar's lawless borders permit the export of all sorts of poison—not just insurgency but drugs and AIDS as well. Many Indians deplore rolling out the red carpet for Myanmar's military dictator at a time when a democratic leader, Aung San Suu Kyi, remains in detention. India likes to portray its approach as pragmatic: to encourage co-operation on security issues, and compete for influence with China.

At least Sri Lanka, whose president, Chandrika Kumaratunga, arrived in Delhi on November 3rd, is not accused of cross-border terrorism any more—though the Liberation Tigers of Tamil Eelam did assassinate Rajiv Gandhi, a former prime minister of India, in 1991. But many Indians would react queasily to the emergence of an independent Tiger-led statelet in the north of the island. In Colombo, Sri Lanka's capital, some of the elite of the majority Sinhalese argue that India could never allow this because it would lead to the break-up of the country. Such views are rarely heard in India itself, but analysts fret about a rekindling of Tamil nationalism on the Indian mainland.

Mrs Kumaratunga is likely to take her hosts to task for their high-handed approach (see article). India so dwarfs its neighbours—even Pakistan and Bangladesh—that they will always feel like flies around an elephant. But there is a growing feeling in Delhi that concerns about events along its borders are not peripheral at all.

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India and Sri Lanka

The Palk palaver

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A unilateral canal

A BIG bugbear in India's relations with its neighbours is its habit of announcing cross-border infrastructure projects without consulting them. Sri Lanka, for example, is incensed about a plan to dig a shipping canal through a 19-mile (30km) stretch of shallow sea in the Palk strait, which separates the two countries. At present, big ships plying between the east and west coasts of India have to circumnavigate Sri Lanka. This channel, first conceived in 1860 by a British seaman, will save 21-36 hours of sailing time.

The project—the Sethusamudram Ship Canal—is included in the coalition government's programme at the request of one of its parties, from the state of Tamil Nadu. But it is controversial in India because of its environmental impact. The area is home to thousands of species of plants, animals, corals and shells. Sri Lankan environmentalists are even more worried, fearing that water from the Bay of Bengal will rush into the narrow Palk Bay, alter the currents there and sink as many as 85 small islands off the northern coast. A particularly alarmist report forecasts that the entire Jaffna peninsula would sink.

The project's promoters—who took out full-page advertisements this week to argue their case—deny there is any threat. Their studies show that there will be no big change in the direction of currents, and no blasting is envisaged. Only sand and clay will be dredged, to be dumped 15 miles away where the drift is northward, away from Sri Lanka's coast.

Economic worries are looming too: increased shipping and periodic dredging in the shallow and narrow Palk Bay may threaten the livelihoods of over 200,000 Indian and Sri Lankan fishermen. The canal will also hurt Colombo, the island's main international port, which relies on India for 70% of its trans-shipment business—though the very biggest ships will still have to sail the southern route.

Sri Lanka has already reacted sharply to the Indian decision to go ahead with the project, though to little effect. An inter-ministerial committee has been formed to study the impact, which is hardly likely to rattle India. Chandrika Kumaratunga, Sri Lanka's president, will have raised the issue again during her visit to Delhi. And her hosts, no doubt, will have listened politely.

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India and China

Clash of the titans

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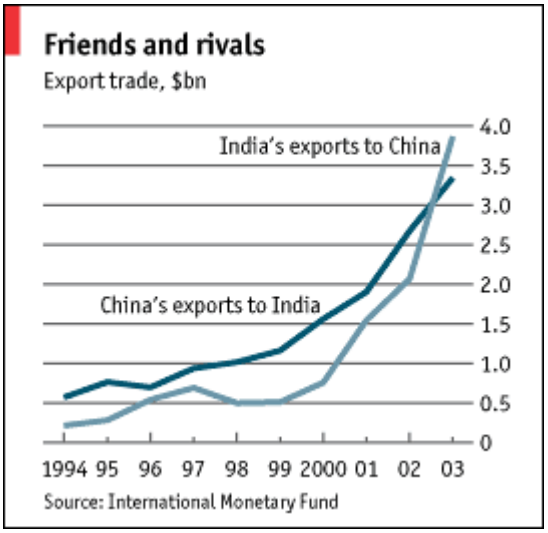
India increasingly sees China as a friend. But what does China think?



PARADOXICALLY, perhaps, the one country among its many neighbours with which India is genuinely chummy these days is the one that you might think it would most fear. China, larger, richer and armed with a nuclear arsenal many times the size of India's puny holding, ought to be as much of a worry to the strategists in Delhi as Pakistan is. Increasingly, though, China is seen not as a threat but as a model. India, its economists and potential investors all hope, may one day be the "new China"—a low-cost manufacturing platform with a virtually unlimited pool of cheap labour. But how does the old China see that?

In the polite discourse of public statements and press commentaries, Chinese officials focus on the upside: shared global interests, complementary trade and the salutary effects of brisk competition between friendly neighbours. While these arguments all make some sense, they do not tell the whole story. In India, China can only see a potential rival—if not now, then soon—for natural resources, foreign capital and, above all, export markets.

Pei Yuanying, a former Chinese ambassador to India, argues that such competition need not be a problem. "The crucial point", he says, "is to see whether this competition is virtuous or vicious." Both sides well remember how vicious things got in 1962, when a border dispute erupted into a short but ugly war. More than a quarter of a century passed before relations returned to a normal footing, and it took longer still for trade relations to bear any fruit. From a paltry $190m in 1990, annual bilateral trade grew to $7.2 billion last year, and may reach $10 billion as it continues rising this year. Factor in Hong Kong as well, and the total could approach $15 billion.

Professor Liu Jian, of the Institute of Asian-Pacific Studies at the Chinese Academy of Social Sciences in Beijing, acknowledges that China and India are bound to compete for access to fuel and commodity supplies as their huge populations seek ever higher standards of living. On both sides of the border, millions of new cars, refrigerators and air conditioners are sure to materialise, and both countries will be vying to import the fuel and power they need to run them all.

At the same time, the two are locked in competition for market share in common exports. Chinese textile and garment firms have handily dominated their Indian competitors, and analysts expect China to strengthen its position further with the end of export-quota restrictions mandated by the World Trade Organisation at the end of the year. China's market share for textiles in Europe has risen from 24% to 45% since 2001 in the sectors where quotas were lifted there. In contrast, according to a report by Khandwala Research India, global market share for Indian textiles has been nearly stagnant. Constrained by more stringent labour laws and poor industry integration, that share has moved from 2.9% in 1995 to just 3.7% in 2002.

The tables are turned, however, in the information-technology sector, where China, according to one estimate, lags as much as 12 years behind India. Though it excels at manufacturing relatively low-cost hardware designed elsewhere, China is hobbled in the software sector by mediocre English language skills, poor quality control and a dearth of managerial talent. While Indian firms sell software services to the world, their fledgling Chinese competitors have yet to earn the trust of European and American customers.

In an effort to study India's success for applicable lessons, one of China's top hardware firms, Huawei, has posted hundreds of engineers to India's technology centre of Bangalore. But according to Madhav Nalapat, Professor of Geopolitics at India's Manipal Academy, that effort is not likely to succeed. He reckons China may have been well placed to excel in years past when the “perspiration industries” were what counted. But now that it is the “inspiration industries” that matter, China is at a disadvantage compared with India. Wishful thinking perhaps, but the contest is no longer quite so one-sided.

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China

Mayhem, martial law and mobiles

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The angry are getting organised

SECTARIAN violence turned deadly this week in Henan province, in central China, when groups of the Han majority and the Muslim Hui minority clashed over a traffic accident. Officials confirmed seven deaths and 42 injuries in four days of fighting before paramilitary police imposed martial law and managed to restore order.

Unconfirmed foreign reports—there was a scarcity of domestic ones—said thousands of Hui travelled to the scene of the riot from other towns in the province to take part in the clashes, and that the death toll may in fact have been far higher.

The Henan riots coincided with a spate of reports about other recent incidents of unrest across China. In Sichuan province last week, as many as 100,000 farmers reportedly took part in violent protests against the meagre compensation they received after being forced to move to make way for a new dam. In Chongqing, Sichuan's largest city, a quarrel among locals turned violent, with reports of police cars being burned and government buildings looted.

In the provinces of Anhui, Shaanxi and elsewhere labour disputes have also turned violent. While those episodes were not connected, Chinese authorities are terrified at the prospect that future incidents might be. Tension, after all, is rife in China. Unpaid wages are a common flashpoint for urban workers, as are arbitrary land grabs by the authorities in the countryside. Economic hardship and unchecked corruption are facts of life throughout China, and ethnic strife is never far below the surface wherever minorities live.

It is the fear of seeing isolated incidents turn into a prairie fire that guides China's handling of unrest. In Henan, outsiders were barred from the region, phone lines were swiftly cut and local media, including domestic internet sites, were scrubbed of any mention of the news.

The good news for China is that ethnic discord between the Han and the Hui is not directly related to the deepening hostility between Muslims and non-Muslims in the rest of the world. But that could be changing, according to Dru Gladney of the University of Hawaii, an expert on China's Hui. Since the terrorist attacks on the United States, the Han have been more suspicious and disdainful of China's own Muslims, who in response have turned more defensive. In the past, Mr Gladney says, incidents like the Henan riots could occur with neither the outside world nor other Hui ever hearing the news. Now, modern communications—mobile phones, text messaging, e-mail—make it easy for malcontents anywhere in China to spread the news and link up with others.

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South Korea

Times change, so why not laws?

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The case for vigilance versus the case for greater liberty

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AP

Rejecting change, for safety's sake

HOW much of a threat does North Korea pose to the internal security of the South? The question lies at the heart of the current heated debate over whether to scrap or retain South Korea's National Security Law (NSL), enacted over half a century ago to protect the country from the then very real dangers of communist infiltration and influence. That debate was given added potency last week after the government reported finding three holes, possibly made by North Korean agents, in the wire fence separating the two Koreas in the demilitarised zone.

The South's ruling Uri party insists that times have changed and that the law is out of date. But its proposal to abolish it faces a rough parliamentary passage in the next few weeks. The conservative Grand National Party continues to regard the North as a clear and present danger. It has promised a no-holds-barred fight to preserve a law it regards as an essential safeguard against a belligerent North Korea that is equipping itself with nuclear weapons.

The law was drawn up in 1948 after the division of the peninsula and only two years before the tense relations between North and South exploded into all-out war. Although it does not go so far as to identify North Korea by name, referring coyly only to “anti-state groups”, the NSL bans praise or open sympathy for such groups as well as prohibiting contact with their members. It also prescribes five years' imprisonment for failure to report “anti-state” activities.

Long criticised by human-rights groups, and regularly labelled draconian by the international press, the law was used by successive military dictators in the South to suppress political opponents. A former president, Kim Dae-jung, was sentenced to death under the NSL for his pro-democracy activities, before having his sentence commuted. The North has long demanded that it should be repealed in the interest of warmer relations. Roh Moo-hyun, the South's current president, has thrown his personal weight behind abolition. The NSL, he says, is a sword that should now be sheathed. But the country's supreme and constitutional courts have both ruled against challenges to the law.

The quarrel has crystallised differences between South Korea's conservatives and liberals and divided the country. The law's opponents say that the measure has failed to keep up with improving inter-Korean relations and now merely hinders reconciliation. But its defenders are numerous. In recent weeks tens of thousands of South Koreans, alarmed by some lurid reports of communist spy rings active in the South, have taken to the streets to demonstrate in favour of retaining it.

These protesters believe the government has exaggerated the progress made in inter-Korean ties and point to the continuing standoff over North Korea's nuclear-weapons programme as evidence. In recent months, the North has declined to continue multilateral talks over the issue, presumably in the hope of a Kerry administration in the United States. It will be bitterly disappointed by the re-election of the much-hated President Bush: but the end of uncertainty after the elections could at least inject badly needed new impetus into the six-party talks and convince a reluctant and suspicious North Korea to return to the conference table.

Figures vary, but most surveys suggest that a majority of the population favours revising the NSL, rather

than the outright abolition proposed by Uri. But the party has already presented a bill to do away with the NSL and bolster the criminal law in its place. It now faces a complicated fight not only for public opinion but also in parliament. With 151 seats in the 299-seat legislature, to scrap the NSL Uri needs to keep every one of its own members in line or to win over members of minority parties. The old law has some life in it still.

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Japan and Iraq

A dreadful decision

Nov 4th 2004 | TOKYO
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A murdered hostage in Iraq highlights a rough patch for Junichiro Koizumi

AP

Not again

Get article background

HE SAYS he will not change course, but Junichiro Koizumi, Japan's prime minister, must be hoping that public opinion does not turn any further against his troop deployment in Iraq. More than 500 members of Japan's Self Defence Forces (SDF) have been there for nearly a year, serving in the quiet southern backwater of Samawa (not to be confused with much nastier Samarra), and Mr Koizumi must decide by mid-December whether to extend their stay. Japan's public had a mixed reaction this week to the kidnapping and killing of Shosei Koda, a 24-year-old traveller whose body was found on October 30th. Even before Mr Koda's kidnapping last week, opinion had been turning against the SDF mission. In a recent poll by the *Asahi Shimbun*, Japan's biggest left-of-centre daily, 63% of Japanese said they opposed having troops in Iraq.

Mr Koizumi may not receive much blame for the killing, which the government has pinned on a group loyal to the notorious Abu Musab al-Zarqawi, a Jordanian terrorist who has orchestrated other kidnappings and killings in Iraq. Many Japanese believe that Mr Koda should not have ignored government warnings to avoid Iraq, especially after five Japanese journalists and aid workers were kidnapped earlier this year and later released. (The five were given a distinctly frosty welcome when they finally got home, and several ended up apologising for having caused Japan so much trouble.) Nonetheless, reports that Mr Koda's body was found covered by an American flag add to the perception that the prime minister deployed troops largely to please George Bush, and that Japan has become more involved than it should have.

Mr Koizumi needs support from a crucial domestic ally, the New Komeito party. The main opposition party, the Democratic Party of Japan (DPJ), has gained strength in recent years, prompting pundits to wonder whether New Komeito might abandon the ruling Liberal Democrats and form a new ruling coalition with the DPJ. As New Komeito closed its party conference on October 31st, it was still standing by Mr Koizumi. But the party's re-elected leader, Takenori Kanzaki, is not taking any unnecessary risks. He has urged Mr Koizumi to delay the decision to extend the Iraqi deployment until as close as possible to the December 14th deadline. Mr Koizumi had better hope that nothing else goes wrong between now and then.

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Israel and Palestine

A new beginning? Well, maybe

Nov 4th 2004 | JERUSALEM AND RAMALLAH
From The Economist print edition

AP

With Yasser Arafat in hospital abroad and George Bush back in the White House, Israelis and Palestinians see both opportunity and danger

Get article background

THE conflict—and the search for peace—between Israelis and Palestinians is plainly entering a new phase. The Israeli government's prospective withdrawal from the Gaza strip continues bitterly to divide Israelis, though their prime minister, Ariel Sharon, seems determined to force it through, and this week won another small victory when Israel's parliament, the Knesset, agreed to a compensation deal for the Jewish settlers who will have to leave.

On the Palestinian side, the gravity of Yasser Arafat's illness, requiring him last week to fly to France for treatment, has inevitably prompted intense discussions over his possible succession—and over the policy a successor might seek to fashion.

Finally, the re-election of George Bush, though on the face of things a boon to Mr Sharon, has raised the spectre—in Israeli minds—of a second-term American president who may be readier to squeeze Israel hard in pursuit of a peace accord between Jews and Arabs in the Middle East.

Many Israelis viewed the reports of Mr Arafat's poor health as good news. General Aharon Ze'evi Farkash, head of military intelligence, told Israel's cabinet that with Mr Arafat out of the way (though Mr Sharon has promised to let him come back), “there is a chance to end the current round of violence” that started four years ago. Yet if Mr Arafat were to go for good, Israel would face an awkward new dilemma.

Since the Palestinians' latest uprising—the *intifada*—began, Israel has argued that it has no credible interlocutor; it says that Mr Arafat, as chairman of the Palestinian Authority (PA) that is meant to govern most of the West Bank and Gaza, is bent on destroying the Jewish state. No partner means no negotiation, which seemed to suit Mr Sharon, who the Palestinians suspect would like to keep a good half of the West Bank under Israeli control for ever, endlessly deferring “final-status” talks. Some rashly candid recent remarks by his close adviser, Dov Weisglass, lent credence to this view. Mr Sharon, he said, would like “this whole package called the Palestinian state...removed indefinitely from our agenda”. Mr Bush, to Mr Sharon's pleasure, shared the view that Mr Arafat is an incorrigible terrorist and liar

unworthy of being talked to.

But if Mr Arafat dies or becomes incapacitated, the no-partner argument falls. If a new leader emerged, promising to eschew violence, Israel would face fierce international pressure to change its ways—among other things, by ceasing military incursions into the West Bank and Gaza, stopping the assassination of Palestinian militants, releasing prisoners and easing travel curbs in the Palestinian territories. It would also be urged to co-ordinate its Gaza pullout with the PA, rather than go it alone, and re-open talks over the “road map” leading to a Palestinian state.

Mr Arafat's health apart, a flurry of regional diplomacy is likely to follow Mr Bush's re-election; Egypt is already active. If America's relations with Europe are to improve, Mr Bush will probably have to promise to try harder to solve the Israel-Palestine conundrum. Mr Weisglass has already been testing the water in Brussels and London. Mr Sharon particularly fears that a reinvigorated Mr Bush, alongside the Europeans, may try to make him agree in principle to leave most of the West Bank once he has withdrawn from Gaza. When a 16-year-old Palestinian boy blew himself and three Israelis up this week in a Tel Aviv market, Mr Sharon was quick to say it proved there was “no change in the PA”.

The Palestinians' tantalising throne

With Mr Arafat in hospital abroad, his senior lieutenants were at pains to stress the continuity of his policies and authority. His chair stood empty at their meetings but he was there in spirit. The two men temporarily entrusted with most of his powers are Mahmoud Abbas, also known as Abu Mazen, who is general secretary of the Palestine Liberation Organisation, the umbrella held over most of the Palestinian groups, excluding the resurgent Islamist movement, Hamas; and the prime minister, Ahmed Qurei, also known as Abu Alaa. Both have wrangled with Mr Arafat in the past but are loyalists nonetheless.

It is unclear what motivated this week's 16-year-old suicide-bomber. His mother berated those who sent a child on such a mission. It was the first such suicide attack in Israel for five weeks, during which period 165-plus Palestinians—civilians as well as fighters—have been killed by Israeli forces, mainly in Gaza. But what was more telling in political terms was a warning issued by the left-wing Popular Front for the Liberation of Palestine (PFLP), which said it had despatched the boy. It darkly urged “Palestinian elements” to drop any thought of ending the “armed struggle”.

That was a threat against Messrs Abbas and Qurei. In any event, they have two priorities. One is to drum some order into the Palestinian police. The other is to persuade Mr Sharon to co-ordinate the planned departure from Gaza with the Palestinians. Omar Suleiman, the head of Egyptian intelligence, is already acting as an energetic back-channel between the Americans, Palestinians and Israelis. Mr Sharon says he would welcome co-ordination if there were a different Palestinian leadership that “dismantled the terrorist infrastructure” in the Palestinian areas, as required under the international road map.

If that means thumping groups like the PFLP and jailing their adherents, it is unlikely to happen. But Mr Abbas and Mr Qurei both think that both Fatah, the Palestinians' biggest secular party, and the Islamists of Hamas, which has perpetrated most of the suicide bombings, would accept a ceasefire. Such a truce would not end the violence completely. But it might restart the diplomacy. Much depends on the re-engagement of America's president, the Palestinians' willingness to end the *intifada*, and whether Mr Sharon would risk being railroaded—as he may fear—into giving back a lot more of the West Bank than he has ever cared to contemplate.

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Osama bin Laden

His latest appeal

Nov 4th 2004 | CAIRO
From The Economist print edition

Is the latest video performance likely to help or hinder recruitment for terror?

Get article background

AFP

The caliphate calls

THE sudden five-minute appearance of the world's most wanted man on the al-Jazeera satellite channel—Osama bin Laden's first televised performance for two years, and the first in which he has worn civilian garb and refrained from obscuring his meaning with pious rhetoric—sparked wide interest among Arabs and Muslims. Reactions were sharply divided.

There was much cheering on the internet chat sites favoured by fellow-travellers in the global Salafi jihadist movement (Salafism being a puritanical call for dogged emulation of Islam's 7th-century founding fathers). One enthusiast declared that the speech proved the genius of the man he described as "our sheikh, our prince, our leader and spiritual guide of the age, and destroyer of America, and reviver of the tradition of *jihad*, and the source of affection and honour for Islam". Like the great early caliphs, Mr bin Laden sought to show, by choosing this moment to address the enemy America, that he was a statesman as well as a warrior.

To Hamed al-Ali, a Salafist preacher in Kuwait who has his own website, Mr bin Laden's appearance is a timely reminder of the choice Muslims face. Just as Mr Bush says that people must be for or against his war on terror, Muslims must be for the *jihad* or for the "Zionist-crusader enemies of Islam", asserts Mr al-Ali. Mr bin Laden's claim that he had first decided to hit America during Israel's 1982 invasion of Lebanon showed—said Mr al-Ali—that, even as a youth, the fugitive terrorist understood the real nature of the threat to Islam.

The Salafi jihadist movement is the main recruit-pool for al-Qaeda-style terrorist groups. Yet, though its views represent a tiny, if growing, minority of Muslims, many ordinary Arabs expressed satisfaction at seeing Mr bin Laden perform, imagining with relish the embarrassment of Mr Bush and his administration.

But Mr bin Laden's appearance also provoked anger and outrage. To claim that he stood for Muslim liberty was preposterous, wrote Mishari Zaydi, a liberal Islamist columnist in Saudi Arabia, since it was well known that al-Qaeda and its emulators denounce democracy as heresy and seek to replace current Muslim governments with a global caliphate imposing by force its extreme version of the faith.

More damaging, perhaps, to Mr bin Laden's reputation among the *jihad*-minded was a posting on another Islamist website, noting that the al-Qaeda chief had committed a blatant sin. Shortly after September 11th, the writer recalled, Mr bin Laden bluntly denied that he had anything to do with the attacks. But in the latest tape he explicitly takes credit for killing nearly 3,000 Americans. So he lied.

The gloating admission, in which Mr bin Laden taunted Mr Bush for putting the "butting of goats" above the "butting of aircraft into skyscrapers"—a reference to the fact that the president continued to read a children's book about a goat when told of the attack on New York—gave more fuel to critics of the global *jihad*. "I hope this will shut up the conspiracy theorists for good," says the head of a Cairo cultural centre, pointing to claims, widely believed in the Arab world, that Mossad or the CIA was responsible for the attacks. Others charged Mr bin Laden with hypocrisy for invoking Israel's war on Lebanon given that he himself was then collecting CIA money to fight Russians in Afghanistan.

Some of Mr bin Laden's Arab detractors worry that his decision to adopt the guise of a politician, rather than a fighter, is designed to win over potential recruits whose zeal for *jihad* has been dimmed by evidence of the indiscriminate brutality of groups claiming allegiance to al-Qaeda. But if Mr bin Laden looked sage and statesmanlike, his gruesome suggestion that people leaping from the flaming twin towers were expressing remorse at their country's misdeeds proved otherwise.

Such cruelty is shown yet more starkly on the jihadist websites that celebrate such horrors as hostage beheadings. On one, the slaughter of 49 Iraqi army recruits is proclaimed as a great victory against Shia apostates. That massacre's perpetrator, Abu Musab al-Zarqawi, who heads Iraq's nastiest *jihad* outfit, has just declared his allegiance to Sheikh Osama. It is doubtful, however, whether such an endorsement will help the jihadist cause.

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Iran

The nuclear debate

Nov 4th 2004 | TEHRAN
From The Economist print edition

With George Bush still in power, the Iranians are still in a nuclear bind

EPA

It's entirely peaceful, say the mullahs

Get article background

WHY did Tehran's parliamentarians, usually so quick to suspect foreigners of stealing a march, stay silent last week when China signed an advantageous deal to extract and buy huge quantities of Iranian oil and gas? Look to China's power of veto in the United Nations Security Council. The deal's small print favours China, but the Iranians are hoping for Chinese protection if other council members, notably the United States, try to have them sanctioned by the council for their advancing nuclear ambitions.

Iran thinks the likelihood of sanctions has diminished since September, when the board of the International Atomic Energy Agency (IAEA), the UN's nuclear watchdog, asked it to suspend all uranium-enrichment and plutonium–reprocessing activities. Russia, Iran's main civilian nuclear supplier, also has a veto in the Security Council—and could block an anti-Iran resolution too. So, rather than refer Iran to a divided council, France, Britain and Germany want to persuade the Iranians to accept a deal to freeze (in the hope ultimately of dismantling) Iran's programme to master the full nuclear fuel cycle and thus keep the issue off the UN's agenda.

The scheme depends on Iran's willingness to stop producing feedstock for centrifuges that produce enriched uranium and to halt work on a heavy-water reactor—at Arak, in central Iran—ideally suited to producing plutonium. But the Iranians say they are prepared to stop these fuel-cycle activities, which they maintain are for civilian purposes but which could also provide fissile material for bombs, for no more than a few months; they demand rewards that include recognising their right to pursue all such nuclear technologies.

The American administration fears that such a deal would allow the Iranians to develop their programme secretly. After all, the Americans point out, Iran exploited loopholes in an earlier deal, signed with the Europeans in October last year, which was meant to halt Iran's progress towards producing uranium and plutonium but barely slowed it down.

The bruised Europeans hope that a fresh deal, with no loopholes, would permit further negotiations to end Iran's attempts to master these dangerous technologies. But the Iranians insist they will not entertain such an idea, and have shown themselves to be shrewd negotiators.

In the run-up to November 15th, the deadline set by the IAEA for a suspension of Iran's nuclear fuel-cycle activities that could be verified ahead of the agency's board meeting later in the month, Iran's negotiators have been telling their European counterparts that they are under pressure from hawks at home. On October 31st, Iran's parliament, now dominated by hardliners, approved the framework for a bill to compel the government to develop fully a nuclear capability—including, says parliament's speaker, a nuclear fuel cycle.

The Europeans are mulling over whether to offer further incentives to persuade Iran to hold off. But few of these are seductive enough. The European Union might, for instance, support Iran's bid to join the World Trade Organisation, but that is not much of a lure so long as the United States opposes it, which it still does. Other incentives, such as a European proposal to sell Iran a light-water reactor, might not be enough to persuade Iran, in return, to scrap its plan to build the Arak reactor.

Only America, it seems, might dissuade Iran from pressing ahead with its enrichment and reprocessing plans. Military strikes on suspected nuclear installations in Iran, perhaps by Israel, which feels most directly threatened by the prospect of an Iranian nuclear bomb, are fraught with risk. Through its fellow Shia proxies, Iran could sow chaos in Afghanistan and Iraq, and help stoke up terror against Israel. But so far the Bush administration has refused to offer incentives. And as long as Iran regards America and Israel as potential aggressors, it is unlikely to stop seeking what it regards as a nuclear shield.

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Iraq

The election season begins

Nov 4th 2004 | BAGHDAD
From The Economist print edition

Amid the bombs, Iraq (or parts of it) has begun to grope towards an election

Get article background

WHILE the insurgency shows no sign of abating, especially in the mainly Sunni triangle where a good fifth of Iraqis live, Iraq's interim government has officially started preparations for the general election due by the end of January. Iyad Allawi, the prime minister, and his American backers seem determined to ensure that something like two-thirds of voters can cast a ballot. It is a daunting challenge.

The first task is to register voters, using the offices set up in Saddam Hussein's era to distribute food rations; the lists need updating, so that adults in every household are signed up—and can use the cards to identify themselves at the polls. In this way, the government will avoid setting up offices just for voter registration that would be targets for rebels intent on ruining an election. The Jordanian terrorist, Abu Musab al-Zarqawi, who has made a habit of beheading kidnapped foreign civilians, has already told workers recruited to help prepare for the election to quit their jobs or die. At the same time, the government hopes that Iraq's myriad parties and movements will soon start to register as “political entities”, enabling themselves to present lists of candidates for parliament.

Will enough Iraqis be able to go to the polls, especially if insurgents threaten to kill them for so doing? And even if the insurgents are kept away from the polling stations in those parts of the country—a large majority, insists the government—where peace more or less prevails, will competing parties behave with due restraint, given that Iraq has not had a multi-party election in living memory?

The government has decided that there should be a single national list, with each party or combination of parties winning seats by proportional representation. This hugely reduces the chance that rival parties will clash violently with each other, as they might if they were competing for seats in smaller constituencies. Moreover, the national-list system should mean that people need not cast their votes in their local polling station if they can reach a safer one somewhere else.

In any event, the hope is that the Kurds in the north, who make up a fifth of Iraqis, and the Shias in the centre and south, who comprise another 60%, should be safe enough to vote in their own neighbourhoods. The Kurds in their autonomous areas have been casting votes for the past 12 years—and should turn out in droves. And the Shias' leaders, including many of those who were hostile a few months ago to the plan for an election, now seem keen to encourage their co-religionists to vote too.

Grand Ayatollah Ali al-Sistani, probably the most influential of all Iraq's Shias, now says that failure to register is a “betrayal of the nation” punishable by hellfire. Other clerics usually considered hostile to the Americans and their allies, such as Ayatollah Muhammad al-Yaaqubi of the Virtue Party, have declared voting a religious obligation akin to fasting during Ramadan. Even some preachers loyal to the fiery Shia preacher Muqtada al-Sadr, who used to sneer at the notion of a fair vote under American occupation, have become far more pliant since he ended the uprising of his rebel Mahdi Army in the Shias' holiest city, Najaf, in August. Some now sing the praises of electoral politics.

The outlook is much blurrier in Sunni territory. Many Sunni groups are reluctant to join a process that might legitimise a new American-created order. Yet some are loth to cut themselves out of peaceful politics altogether. The Muslim Scholars' Board, a clutch of strongly anti-occupation clergy that is probably the most influential voice in Sunni politics, has declared that a fair election is impossible so long as the Americans remain. But the Iraqi Islamic Party, another Sunni group that has joined Mr Allawi's government while criticising many of its policies, has urged its co-religionists to vote lest they be marginalised.

The chances of more Sunnis seeking to vote would rise sharply if the United Nations played a bigger part, making the election seem less of an American-sponsored show. But it now seems increasingly unlikely that the UN's organisational contribution in the election's run-up will be more than token, since no country appears willing to provide the security force that UN officials say is necessary to let their people venture into the provinces.

The seven main parties that have dominated Iraqi politics since Mr Hussein's fall have been mulling over the idea that they should compile a single shared list. A “monster consensus” list, as some Americans have dubbed it, should ensure that every notable ethnic, religious and regional group has a voice in parliament.

But it may be hard for a grand alliance of the new establishment to draw up such a list without rancour. The religiously minded, centralist Shia disagree on several big issues with the more secular, federalist Kurds. Even getting groups from the same communities to agree on candidates will be tricky. The two main Kurdish parties have been working on a combined list since September, while more recently representatives of Mr Sistani have been brokering a pan-Shia list.

The Kurds and the Shias may seek to merge their lists after a big conference on Iraq this month in Cairo, where the two groups may try to reconcile their visions of the future. If they do so, they may try to include Sunni Arabs from the Iraqi Islamic Party or other groups in their list, perhaps with some disciples of Mr Sadr too.

Such political alliances, however, are extremely volatile. If there is an American-led assault on Fallujah, and violence flares across the country, a realignment could rapidly occur. The looming prospect of the offensive is already dividing the interim government. Mr Allawi insists that the rebel-held town should hand over the likes of Mr Zarqawi—or get whacked. But the interim president, Ghazi al-Yawar, sheikh of a predominantly Sunni Arab tribe, says that attacking Fallujah's insurgents is like shooting at a fly that has landed on your horse's head: you'll miss the fly but kill your horse. Negotiations, he insists, must go on. Otherwise, the chaos will worsen across the country—and the election will be so flawed that almost no one, in or out of Iraq, will accept the result.

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Botswana

Africa's prize democracy

Nov 4th 2004 | JOHANNESBURG
From The Economist print edition

Why is an arid, landlocked country in southern Africa such a success?

AFP

Once again, and admirably dull

AFRICA'S longest-running multi-party democracy notched up another success last week when Botswana's voters gave the ruling Botswana Democratic Party 44 of parliament's 57 seats in a general election. Sworn back into office with the endorsement of MPs, the country's president, Festus Mogae, will keep his job until 2008. He has promised, again, to fight poverty and Botswana's worst scourge, AIDS. The election was admirably dull. The country has a good claim to be the best-run democracy in Africa.

Botswana's 1.8m people are among the continent's wealthiest, after four decades of fast economic growth. International surveys suggest they are Africa's least corrupt. The World Bank and others say that, along with South Africa, it is the easiest place to do business in Africa. Good institutions, stable economic policies and a smart use of technology make it more competitive than, say, Brazil or Mexico.

Why? Though landlocked and thinly peopled, it is rich in diamonds. “We use our resources better than others,” says Mr Mogae. Botswana's diamond mines are run jointly by the government and De Beers, the South African giant. The stones provide over half the treasury's revenue.

It helps that they are deep underground and hard to reach, so exploitation takes a long time and needs a private investor who is “a real partner, not just prey for the government”, says Greg Mills of the South African Institute of International Affairs. Where stones are scattered in rivers and shallow soil, as in Sierra Leone or Angola, armed rivals are likelier to scrap over them.

No less important, Botswana's rulers keep their fingers out of the honey pot. Many other African governments enjoy big revenues from natural resources, notably from oil in west Africa, but too many leaders steal what they can. Botswana's moderate, efficient, British-educated presidents have been honest. They have made sound policies, ensure that civil servants implement them and leave office dutifully when the constitution says so, after a maximum of ten years. Mr Mogae worked for the IMF before his spell as president.

Botswana's biggest worry is AIDS. One in three young adults is reckoned to be HIV-positive, perhaps the world's highest rate. Unlike Thabo Mbeki, his counterpart in South Africa, Mr Mogae has thrown himself into a campaign against the blight, promoting Africa's most extensive anti-AIDS plan. He takes every opportunity to talk about the disease and to invite foreigners to help him beat it.

Is Botswana really blessed with better leaders than elsewhere in Africa? Zibani Maundeni of the University of Botswana says that indigenous Tswana culture has helped. “Before any big decision, [Tswana leaders] consulted the general population,” he says. “There was a strong culture of hearing the views of ordinary people.”

But that applied to many other societies across Africa before the white man drew his crudely divisive maps. Botswana's biggest advantage over virtually every other African country is its ethnic homogeneity: it has no big tribal divisions. The only blot on its reputation for tolerance is its government's policy of forcing the once nomadic Bushmen, a tiny minority now known as the San, from the Kalahari desert to settle in villages.

Like South Africa's rulers next door, Botswana's have yet to face a serious political rival. The opposition has been weak and divided ever since independence in 1966; the same party has always run the government. A real test of democracy will happen only when a much bigger opposition emerges. But most people seem pretty happy, for now, without one.

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Islam in the Netherlands

Another political murder

Nov 4th 2004 | AMSTERDAM
From The Economist print edition

Geert van Kesteren/Hollandse Hoogte

For the second time in two years a horrific murder has traumatised Dutch society

Get article background

THE first time the Dutch hoped it was a freak incident. But a second political murder in the Netherlands in the space of two years has left this country, which has long prided itself on its tolerant, liberal values, in deep shock. Dutch people fear that they may now live in a place where violence has become a way of settling differences of opinion—especially over rocky relations with a growing Muslim minority.

An outspoken and provocative film director, Theo van Gogh, was murdered in Amsterdam on the morning of November 2nd. A 26-year-old Dutch Moroccan apparently emptied a magazine of bullets into his victim, knifed him as he lay dying and left a note stabbed into his body. He was arrested after a shoot-out with police. Ironically, Mr Van Gogh was killed as he was cycling to the studio to finish editing a film about the previous political murder, of the flamboyant anti-immigrant populist Pim Fortuyn in May 2002. Fortuyn, whom Mr Van Gogh admired, was killed by an animal-rights activist of ethnic-Dutch origin. At the time the fact that the killer was neither Muslim nor an immigrant was greeted with relief by politicians and public alike.

No such relief this time. The victim was an outspoken and often offensive critic of Islam, who once called radical Islamist immigrants “a fifth column of goatfuckers”. His killer was a *jallaba*-clad Muslim immigrant and associate of a radical group that Dutch intelligence has been watching. Police arrested eight more Islamist suspects the next day. The justice minister said the murder stemmed from “radical Islamic beliefs”. Mr Van Gogh was killed a few months after the screening on television of his film “Submission”. The film, based on a screenplay by a Dutch parliamentarian, Ayaan Hirsi Ali, features a Muslim woman in a see-through *burqa* telling a story of abuse within her marriage; she has text from the Koran condoning family violence written on to her naked body.

Ms Hirsi Ali is a Somali refugee who has made a career in Dutch politics by standing against radical Islam and defending her adopted homeland's liberal values. She even quit the Dutch Labour Party for the liberals because she thought it too soft on illiberal Islam. Both she and Mr Van Gogh received death threats after “Submission” was shown. She accepted protection, but he waved the threats away, saying he was just “a merry village fool”. Who would want to kill somebody like that?

The government labelled the murder an “act against freedom of expression”, and organised an Amsterdam rally against it. The protesters worried that the killing might be a sign that they are no longer free to express controversial views, or pursue the most outlandish lifestyles, without fearing for their personal safety.

Despite the speedy condemnation of the murder by most Muslim organisations, it could still provoke a sharper clash. This is more worrying since the Netherlands is a country where, at least economically, immigrants do better than in many others. Although they are worse off than the ethnic Dutch, there is no immigrant underclass, and no real ghettos exist. Some immigrants are, like Ms Hirsi Ali, already joining the Dutch middle class, both in incomes and in lifestyle.

Despite the harsh debate begun by Fortuyn three years ago, the country suffers from little overt racism. Fortuyn himself insisted that he was no racist, and bitterly dissented from comparisons between his party and France's National Front. Many immigrant groups, such as Surinamese, Chinese or eastern Europeans, fit quite happily into the Netherlands.

But the gulf between the ethnic Dutch and Muslims has widened (there are almost 1m Muslims in a total population of 16m). Misunderstandings tend to centre around slippery cultural values and social norms. To many Dutch people, the idea of building a multicultural society has failed. Fortuyn's rise to fame three years ago was a sign of how widespread this view had become. Integration is the buzzword now. Many Dutch feel that the time has come for the Muslim minority to adjust to where they live and adopt Dutch values—precisely the view espoused by Ms Hirsi Ali.

The debate is coming at a moment when the Dutch are fretting over a general weakening of their social cohesion. Many see immigrants as at best a symbol of this change, and at worst as one of its causes. After this week, more will feel threatened because their Muslim neighbours do not share their liberal values. Dutch hostility to the prospect of Turkish membership of the European Union may also intensify.

The hard-hitting policies of the current immigration minister, Rita Verdonk, have been adjusted to respond to such fears. They include such measures as limiting the influx of immigrants by arranged marriages and making more effort to integrate newcomers into Dutch society, for example by compelling them to learn the Dutch language.

Many immigrants say the government's aim is full assimilation. They attack what they see as a lack of knowledge and respect for their own cultural and social norms. And many Dutch of Moroccan and Turkish origin feel offended that they are still officially tagged as “foreign” despite being born and educated in the Netherlands. But that is not likely to change now. Instead, more public figures have been calling on Muslim groups to accept the liberal society they find themselves in—and on the government to force them to if they will not do so voluntarily.

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Ukraine's presidential election

Second time lucky?

Nov 4th 2004 | KIEV
From The Economist print edition

The presidential election will be decided by a run-off. Probably

Get article background

UKRAINE, says an aide to Victor Yushchenko, one of two remaining candidates for his country's presidency, is not quite a banana republic. Grotesquely corrupt, maybe; flawed, the first round of its presidential election on October 31st certainly was. But there are limits to what malpractice can do. For all their efforts, which allegedly included two assassination bids, Mr Yushchenko's foes could not stop him advancing in a strong position to a second round, due on November 21st.

His opponent will be Victor Yanukovich, the prime minister and choice of Leonid Kuchma, the outgoing president. Mr Yushchenko, a former head of the central bank, was himself prime minister in 1999-2001, though he later turned against Mr Kuchma. With the results of 98% of polling stations audited, Ukraine's central election commission said that each Victor had won just under 40% of the vote. The commission then suspended its count, perhaps because it was reluctant to acknowledge that Mr Yushchenko might be ahead.

Mr Yushchenko's allies insist that he did far better than the official tally allows—and even that he may have secured the 50% needed for outright victory. According to the most reliable exit poll, he beat Mr Yanukovich by six points. But some votes, it appears, counted for more than others, and some did not count at all. Many Ukrainians could not vote because of mistakes on the electoral rolls; others seem to have voted more than once. Officials on local electoral commissions are said to have been intimidated. Western observers criticised these failings, as did the European Union and America.

It is also impossible to know how Ukrainians might have voted if the run-up to the poll had not involved state-sponsored bullying, and if media coverage were not so heavily skewed in Mr Yanukovich's favour. Serhiy Tihipko, chairman of Mr Yanukovich's campaign, argues that his candidate's exposure merely reflected his work as prime minister. But many in Ukraine's media disagree: dozens of journalists working for television channels controlled by Mr Kuchma or his allies called last week for an end to censorship.

That might yet help to make the second round fairer than the first. Problems with the rolls and with multiple voting may be considered by Ukraine's parliament. And the omission of the 22 other candidates from the first round should improve the atmosphere. Several were of dubious provenance, and used their statutory air-time to attack Mr Yushchenko. Russia's influence on proceedings may also wane.

Presumably because of Mr Yushchenko's greater enthusiasm for joining NATO and the EU, Russia's Vladimir Putin more or less openly backed Mr Yanukovich. Since the vote, Mr Putin has moved hastily to make it easier for Ukrainians to work in Russia, and to hold dual citizenship, which Mr Yanukovich has also pledged to introduce. But such gestures may make little difference at this late stage.

Moreover, despite the physical effects of what he says was a deliberate poisoning in September, Mr Yushchenko should best his slower-witted opponent in the televised debates now being planned. Olexiy Haran, a political scientist at the Kiev-Mohyla Academy, detects signs of nervous hedging by oligarchs and power-brokers, who had assumed a Yanukovich win.

Whether that still materialises might depend on what happens to the supporters of the ejected socialist and communist candidates, who between them took 11% of the first-round vote. On the other hand, those in Mr Kuchma's government with most to lose should Mr Yushchenko win may yet risk a little banana republicanism—more aggressive vote-rigging, or violent disturbances—to keep him out.

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Turkish women and Islam

Fighting free

Nov 4th 2004 | ANKARA
From The Economist print edition

The paradox of devout Muslim feminists

Get article background

IN MANY places, Muslim women struggle to break free of curbs imposed in the name of Islam. In officially secular Turkey, pious ladies are waging a different war: they want to practise Islam as their conscience dictates (and so to cover their heads) but also to free the faith from male misogyny.

Take Hidayet Tuksal, a headscarved teacher of religion. While studying at Ankara University's theology faculty in the 1980s, she was disturbed by her male professors' reading of the Prophet's teachings on women. At the religious high school where she later taught, she grew angry. Male instructors treated female colleagues “like dimwits” and berated female students over petty things like the colour of their socks. So she studied more closely what the Prophet had actually said.

Her findings, collated in a doctoral thesis and book, convinced her that Islam did not see women as “second-class beings”—as many men believed. Mrs Tuksal is one of a small band of Islamist feminists who roam Turkey's rural backwaters and urban ghettos, urging women to seek education and insist on their rights. In their feminist view of Islam, gays and non-Muslims should not be ostracised either.

Islamist hard-liners resent these feisty ladies. More worldly feminists look down on them because they wear headscarves. But secular feminists ought to be grateful, for female empowerment has more chance of being accepted when preached by ladies in scarves. In future it may be easier for secular and devout feminists to work together. A live-and-let-live attitude to headscarves, a deeply divisive issue, is gaining ground. Surveys show that over 70% of Turks oppose the ban on the headscarf at universities and public offices.

It may also be a good sign that Mrs Tuksal and her friends have begun a joint education project with secular feminists and the Religious Affairs Directorate, a state agency. The project involves training 3,000 state-employed female preachers and Koran instructors to propagate women's education; and also publicising recent changes in the penal code.

Tailored to groom Turkey for Europe, the changes include stiffer penalties for crimes against women, including rape, “honour killings” of women deemed to have besmirched the family name, and forced virginity tests, imposed by teachers, relatives or other male bullies. When facing such practices, Turkey's women close ranks, whatever they believe.

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Germany and the war

Populist ping-pong

Nov 4th 2004 | BERLIN
From The Economist print edition

Bitter memories linger, at least in the popular press

AFP

Consorting with the enemy?

WHEN did the second world war really end? Six (and not 60) years ago might be the answer, to judge by quarrels this week. Whether Queen Elizabeth II should apologise for the 1945 bombing of Dresden became an issue in her visit to Germany (she did not, but she spoke of the "appalling suffering of war on both sides"). And arguments over restitution topped the agenda when the German and Polish governments held annual consultations on November 4th.

Such rows do not reflect deep-seated differences. In fact, German-Polish reconciliation is a striking success story. Having fought for centuries, they have achieved much since the end of the cold war, including a final definition of borders and Polish membership of the European Union. Taking a page from the Franco-German relationship, the governments this week each decided to appoint a senior official to co-ordinate their dealings.

It is, rather, ignorance that drives the quarrels. The British know little about modern Germany. According to a recent survey by the British Council and the Goethe Institute, almost two-thirds of young Britons cannot name a single German personality. Half have no personal knowledge and only a third think positively of the country (and then largely thanks to fondness for German beer).

Germans know more about Britain and like it, but they are ignorant of, and unsympathetic to, Poland. Western Germans, especially, rarely cross the border, let alone learn any Polish. Asked which countries they like, Poland usually falls in the bottom third of the list, according to the Allensbach Institute, a pollster. Most Germans harbour age-old prejudices about their eastern neighbours, considering them lazy, provincial and greedy.

Poles' feelings about Germany, which they know well, are a mixture of respect, jealousy and fear. Like many Britons, they admire such traits as the German love of order, but they criticise their neighbours for arrogance and Nazi aggression. Some 30% of Poles think that reconciliation between their country and Germany is impossible, says CBOS, another pollster.

Mistrust, prejudice and ignorance are good for populists, and for the popular press. It was the tabloids that played journalistic ping-pong over the queen. It is still unclear why Britain's *Daily Express* claimed that the Germans were demanding an apology, which they were not, but it made good headlines. Predictably, *Bild*, Germany's biggest tabloid, obliged by trumpeting the British debate about an apology. Populist politicians have also stepped in. In Germany, they are mostly representatives of German "expellees", such as Rudi Pawelka, who heads the Prussian Claims Society (PCS), the organisation that plans to file restitution claims. Meanwhile, populists in Poland make up a big slice of the country's parliament.

In a chain of knee-jerk reactions, these actors tend to play the same game. Mr Pawelka gives an interview that is largely ignored in Germany, but blown out of proportion by *Fakt*, Poland's equivalent of *Bild* (both are owned by Germany's Springer group) and other media, which then causes political uproar and German head-shaking over the seemly irrational Polish reaction. In fact, there is not much more to the PCS than Mr Pawelka in his kitchen. Even so, the Polish parliament voted in mid-September that

Germany had not paid enough wartime reparations.

Whether Mr Pawelka ever actually files his claims remains to be seen. His main aim seems to be to put pressure on the German government to offer compensation itself. But it is unlikely to do this, as it could trigger a tidal wave of restitution claims. Instead, Germany hopes that a report drawn up by legal experts from both countries will take the heat out of the issue.

Can governments do more to head off disputes? Maybe not. As long as people are ignorant, populists will play ping-pong—and scores of Nazi-related 60th anniversaries lie ahead. There is hope for the British, at least. Thanks to low-cost airlines, they have discovered Berlin. In the year to last August, more than 130,000 visited the capital, a 50% increase on 2000. One hopes they are not coming just to get drunk.

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Romania and the European Union

Brussels beckons

Nov 4th 2004 | BUCHAREST
From The Economist print edition

Despite its misgivings, the European Union is preparing to admit Romania

CORE Europe, meet poor Europe. Romania and Bulgaria look ever more likely to join the European Union in 2007, after being left out of this year's enlargement because they were too slow over political and economic reforms. Bulgaria's entry is the more assured, following the good marks it won in the European Commission's progress report last month. The Bulgarians now hope that next month's EU summit will fix a date for signing their accession treaty early next year.

Romania's progress has been wobblier. Unlike Bulgaria, it has yet to finish formal talks with the EU, though it hopes to do so by the end of the year. The negotiations are mainly about identifying areas where a candidate country can readily implement the EU's rule-book, and areas where it needs more time and help. Romania is still negotiating on competition policy, the environment, and justice and home affairs, where it will have the biggest problems meeting EU standards.

Romania's life is complicated by the fact that it faces both parliamentary and presidential elections on November 28th. On the face of it, a change of government might be healthy. The ruling Social Democrats (PDSR) are post-communists whose older leaders learnt their trade in Ceausescu's time. They have modernised their style and ideas in the past four years, but their party machine is fuelled by clientelism and corruption. The main opposition group, Justice and Truth, is scarcely free of such sins, but its instincts are more liberal. It wants to cut taxes further and faster. Its plain-spoken presidential candidate, Traian Basescu, a former sea-captain recently re-elected as mayor of Bucharest, has caused a fuss by defending gay rights and calling for legalised prostitution.

A change of government would not mean big changes of policy. Most decisions would be dictated largely by the commitments that Romania has already made to the EU, to NATO, which it joined this year, and to the IMF, with which it has agreed structural reforms. Even so, the election is unhappily timed. A change of government would mean new leaders having to make themselves known and trusted in Brussels, and new ministers needing to get the measure of their jobs, just when Romania wants other countries to sign off on its EU accession. A re-elected PDSR, on the other hand, would “be in a position to keep moving Romania forward”, says Mircea Geoana, the current foreign minister who will become prime minister if the PDSR wins again.

The electorate seems torn. Recent polls show the PDSR narrowly ahead of Justice and Truth, with the nationalist Greater Romania Party far behind, but one-third of voters still to make up their minds. The PDSR's presidential candidate, Adrian Nastase, now prime minister, is leading Mr Basescu by four or five points. But official campaigning has only just begun, and Mr Basescu's rough charm may win over swing voters. “On November 28th I am going to beat Adrian Nastase like his mother never beat him when he was a naughty boy,” Mr Basescu promised last week. Mr Nastase responded by calling his rival irresponsible and xenophobic and saying that he would be “at ease in a pub”.

A president at ease in a pub would not be so bad in a country that, until 1989, had a dictator who looked more at home in a madhouse. Romania has taken a roundabout way to democracy since Ceausescu, its elections overshadowed by rampaging miners, two economic crises, and the rise of the Greater Romania Party to the brink of government in 2000. This election will be the first in which the direction of the country is not fundamentally in question. That is good news, as it means that democracy is working. The EU has also treated Romania quite generously, whatever last-minute rows now blow up. Setting out to reunite post-communist Europe, the EU tried hard not to omit Romania, even when it seemed to be going backwards.

Under the EU's tutelage, Romania's present government has come to accept that political and economic

reforms are needed for the good of the country, and not merely to secure cash from Brussels. The government has even privatised Petrom, the state oil company, whose sales are equal to some 4% of GDP. Petrom had previously been a vast off-budget reserve of cash, cheap credit and patronage.

There is still a long way to go. Romania has the lowest income per person in central Europe, the worst environmental standards, the biggest tax arrears, the most pervasive corruption, the highest infant mortality and the lowest education spending. Its judicial system is a mess (see article), its media freedom questionable, and its labour market so dysfunctional as to constitute “a human-asset paralysis”, in the words of a World Bank report.

The EU talks of adding a clause to Romania's accession treaty to permit a year's postponement, until 2008, should Romania have serious last-minute problems. But this is a fig-leaf of comically inadequate proportions. The EU has chivvied Romania along until it has reached roughly the standards and habits of the Italian south in the 1960s. Now it is going to let the country in largely on trust, knowing that reforms promised today will be implemented only in years, even decades, to come. If Romania were not such a likeable and spirited place, that might seem a touch rash.

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Romania's judicial system

Judge and jury

Nov 4th 2004 | BRUSSELS
From The Economist print edition

One key obstacle to Romania's EU entry

NOW that Romania has won recognition from the European Commission as a functioning market economy, its ramshackle legal system is the biggest threat to its hopes of joining the EU in 2007. Its courts are short of judges, its judges short of training. Some laws are out of date, others are new and untested. Lack of judicial independence is made worse by a political system riddled with cronyism and corruption. According to Romania's justice minister, Cristian Diaconescu, more than 2m lawsuits and criminal cases are outstanding, some dating almost to the communist era. The EU wants long-term judicial reforms well under way before Romania joins.

Mr Diaconescu claims that his government is equal to the task. It has just bolstered judicial independence, at least on paper, by switching powers to promote and punish judges from the justice ministry to a “supreme council of magistrates” that represents the judges themselves. Specialised commercial courts are being set up; family courts will follow. The justice ministry has called for a “national centre for integrity”, an odd-sounding watchdog that would make a public fuss or demand an investigation if it spotted, or was tipped off about, prima facie cases of corruption.

The EU has also voiced concerns about the judicial system in Bulgaria, the other candidate for membership in 2007. It declared last month that pre-trial investigation of serious criminal cases in Bulgaria was slow, complicated and prone to political interference.

One EU official suggests that judicial reform tends to lag in candidate countries, including those that joined in May, because the EU cannot offer a standard model for organising police forces, courts or national legal systems. Each country in the EU does such things in its own way. The only requirement is that each system must command the trust and respect of other EU governments. And here, it seems, Romania in particular still has far to go.

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Charlemagne

The Lisbon lament

Nov 4th 2004
From The Economist print edition

Europeans indulge in a spot of self-flagellation

IN A single week the baggage train of European leaders has moved from ancient Rome to modern Brussels: from the sublime to the depressing. It is not just the change of surroundings. When the leaders of the European Union's 25 member countries met near the Roman forum on October 29th, they signed a new constitution for the EU, amidst soaring rhetoric and stirring music. It is easy to feel optimistic when focusing on distant prospects of European brotherhood. But when the same leaders reassemble in an office block in Brussels on November 4th-5th, it will be to confront gloomier news from the here-and-now.

The main item on the agenda is a paper drawn up by a team led by Wim Kok, a former Dutch prime minister with a reputation as a reformer. Mr Kok's brief was to produce a progress report on the “Lisbon agenda”: the ambition to turn the EU into “the world's most competitive, knowledge-based economy by 2010”, set at an EU summit in Lisbon in 2000. Mr Kok's view of how things are going at the halfway stage is not encouraging. A draft of his report argues bleakly that “Europe has lost ground to both the US and Asia; its societies are under strain; and some ugly political forces are beginning to manifest themselves.”

The picture is not unrelentingly gloomy. Over the past five years, the EU has increased its employment rate (the proportion of the working-age population actually in work). It has highly competitive companies in civil aerospace, engineering and mobile telephones. The Kok report claims that the growth in the value of European high-tech exports has recently surpassed that of both America and Japan. Some smaller European countries, such as Sweden and Finland, have combined high growth and low unemployment with the commodious welfare state that is regarded as the embodiment of the European ideal. But the report's overall tone is glum: unemployment remains high, growth is slow, researchers are moving to America, manufacturers to China—and Europe's burgeoning army of pensioners makes it hard to see who will pay for generous welfare in the future.

Under the circumstances all that Mr Kok and his not-terribly-merry men can do is urge the EU to redouble its efforts. The Kok paper is, in short, like a prolonged school report, ending with the verdict “B-minus. Must try harder.” But who exactly must try harder? As Mr Kok accepts, it is unfair to lay the blame for the “failure” of the Lisbon agenda at the doors of EU. The structural reforms that are widely seen as crucial to the revitalisation of the European economy—lower taxes, the reform of pension systems, more labour-market flexibility, stronger incentives to work—are, above all, the responsibility of national governments. All that Brussels can do is to chivvy them along. Even when the EU does have legislative powers, its reforms are often stymied by recalcitrant members. Thus the goal of creating a common patent has been blocked by an interminable linguistic dispute. (Mr Kok suggests taking “the courageous decision of choosing English as the sole language” for patents. Fat chance, as they say in Paris.)

Some in Brussels might dream of acquiring the power to force through structural reforms. But that is not going to happen—and for good reason. Besides the technical complexity of harmonising social-security reforms across the European continent, experience suggests that the EU is ill-suited to imposing reforms. Brussels works by compromise. Thus any liberalising measures tend to be offset by bows in the direction of “social Europe”. The “Lisbon process” itself exemplifies the blunting effects of compromise. Although it was conceived originally as a spur to liberalisation, it has since become larded with a complete set of additional goals, such as environmental protection, sustainable development and the protection of the European “social model”. You name it, it can all be done in the name of “Lisbon”.

Hope from the east

If real reform is to happen in Europe, it is unlikely to be inspired by lectures from Brussels. Instead it will be hard necessity and the power of example that create the pressure for change. Fortunately, both are being provided by the ten countries that joined the EU in May, particularly the eight from central Europe.

The new boys bring refreshing new attitudes to the table. Communism has inoculated them against the joys of central planning and made them sceptical about welfare states. As poor countries that are determined to catch up, most are keen above all on growth and free enterprise. They are not afraid of change; on the contrary, they relish it. (“It must be so boring being prime minister of a country like Denmark,” mused one central European prime minister. “We do more reform in a single session of parliament than they do in five years.”) Countries such as Slovakia and Estonia have slashed taxes and red tape. Slovakia now enjoys a flat tax of 19% on corporate profits and personal income. Across the region, many economies are enjoying rapid growth. Slovakia, Hungary and the Czech Republic may all grow at over 4% this year; Poland and Estonia should beat 6%.

The effect on western Europe should be salutary. One of Germany's leading businessmen argues that “this country needs a shock to get it going, and maybe competition from our neighbours will provide it. Many mid-cap businesses in Germany are looking aggressively at opportunities in new member states.” Already workers at several German companies have reacted by accepting longer working hours for the same pay.

The pressure of competition from hungry central Europeans carries risks. It could spark a backlash against the single market; some older members are already asking why they should make big budget transfers to central European countries if such payments make it easier for them to hold down tax rates. But in general, if pressure from the east encourages western Europeans to push through long overdue reforms, the result will be faster growth everywhere. And the stimulus will have come not from Lisbon, but from Bratislava, Tallinn and Warsaw.

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Oil and the economy

How big a threat?

Nov 4th 2004
From The Economist print edition

High oil prices will hurt the British economy, but it will cope better than other major economies

Get article background

THE Bank of England made no change to interest rates on November 4th. The Bank's monetary-policy committee has now kept the base rate at 4.75% for three months, confounding expectations in the summer of a hike to 5.0% this month.

Lower growth in the third quarter and signs that the housing market has finally run out of steam are two reasons why the Bank has kept its hand off the interest-rate trigger. But the committee will also have taken into account the oil price, which has leapt by a fifth in the past three months. The price of Brent crude has risen by 60% since the start of the year.

Past oil-price shocks have tipped the British economy into recession, so there are grounds for concern. The two oil-price shocks of the 1970s generated a noxious mix of rampant inflation and recession. Each time, rising fuel bills not only led to an inflationary price-wage spiral but also imposed what was in effect a big tax on oil-users, sending the economy into a tailspin.

But history does not necessarily repeat itself. For one thing, this year's oil-price shock is less shocking than those of the 1970s, when the oil price first quadrupled in 1973-74 and then trebled between 1978 and 1980. In real terms, the oil price is currently about half the peak it reached in 1980. For another, the economy is less reliant upon oil. It uses about a third less oil per unit of GDP than 20 years ago, according to the National Institute of Economic and Social Research.

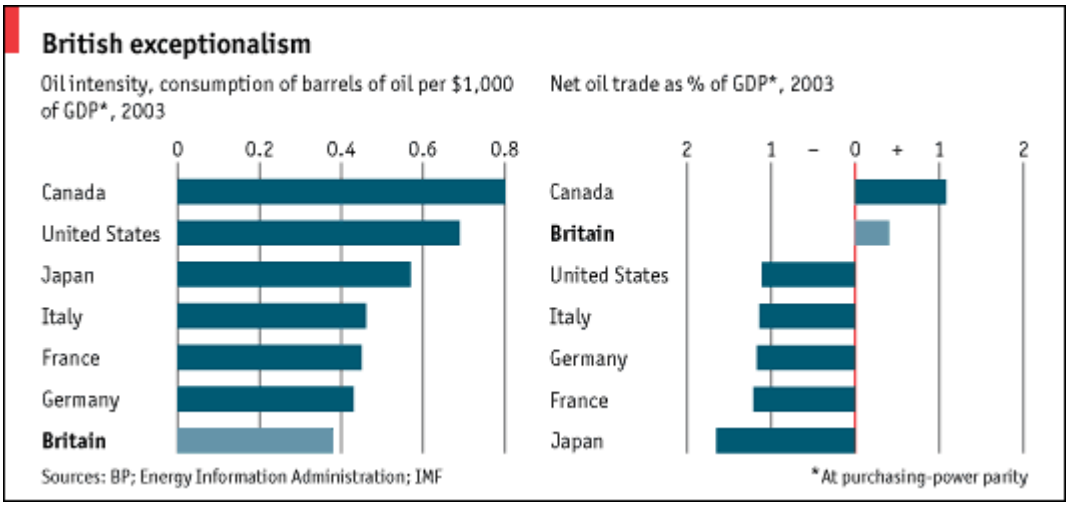
As important, the economy is now better able to cope with oil-price shocks than in the past. Wages and prices are no longer subject to the controls imposed in the 1970s. Labour-market reforms have made wages a lot more flexible. And intensifying competition in product markets means that firms find it much more difficult to pass on higher costs by raising prices. The mark-up mentality has faded.

The economy has also been better managed since the government first switched to targeting inflation in 1992 and then made the Bank of England independent in 1997. The Bank's success in keeping inflation low in the past few years has entrenched expectations of price stability. Despite the oil-price increases, consumer prices rose by just 1.1% in the year to September. With inflation this low, the danger of another upward price-wage spiral seems remote despite recent hikes in consumer fuel bills.

Last but not least, Britain was a net importer of oil in the 1970s. It took time to ramp up production in the North Sea after oil was first discovered there. The trade balance in oil swung into surplus only in the second half of 1980.

Although the big surpluses of the early 1980s have shrunk, Britain remains a net oil exporter. Despite falling production, the offshore oil industry (see article) expects Britain to remain self-sufficient in oil over the next three or four years and to meet 80% of Britain's oil demand in 2010.

Britain's self-reliance in oil cushions the economy further from the shock of an oil-price rise since there is no longer a transfer of income to overseas oil producers. This means that more of the extra oil revenues can be recycled within Britain rather than through higher demand from oil-exporting countries. The government gets a higher income in taxes on oil production which can finance higher spending. Some of the profits made by the offshore industry will be spent in Britain.



Not only is Britain better placed than in the past to withstand an oil-price shock, but also it is better placed than other economies. Canada is the only other country in the G7 group of big economies to be a net oil exporter (see chart). And Britain is also the least oil-intensive of the G7 countries. Manufacturing uses a lot of oil, but this sector is now quite small in Britain. And in a small country, lorries and cars don't have to flog over the vast distances that they do in North America.

Britain has another bit of luck: it has a relatively big share of oil-producing countries' import business. According to the National Institute, Britain's share of this market is 6%—twice its share of world GDP. By contrast, America's share is 11%—half its share of world GDP. Allowing for the relative size of their economies, Britain has a bigger share of the market than the euro area. As a result, the British economy should benefit disproportionately when the oil producers spend their extra revenues, which is likely to be more swiftly than in the past.

All this means that Britain will take less of a hit in lower GDP growth from the oil-price shock than other major economies. According to Ray Barrell, an economist at the National Institute, a rise in oil prices cuts Britain's GDP growth about half as much as it cuts the euro area's and about a third as much as it cuts America's.

However, Britain will not escape unscathed, not least since it will feel the effects of slower growth in the euro area and America, its prime export markets. According to Ben Broadbent, an economist at Goldman Sachs, the jump in oil prices since last year will reduce GDP growth in 2004 by 0.2 percentage points and in 2005 by 0.3 percentage points.

Yet even taking this reduction into account, Goldman Sachs is forecasting that national output will expand at a healthy rate, by 3.2% this year and by 2.6% next year. The oil-price rise may be restraining the economy, but unless further increases take place, the damage is likely to be surprisingly limited.

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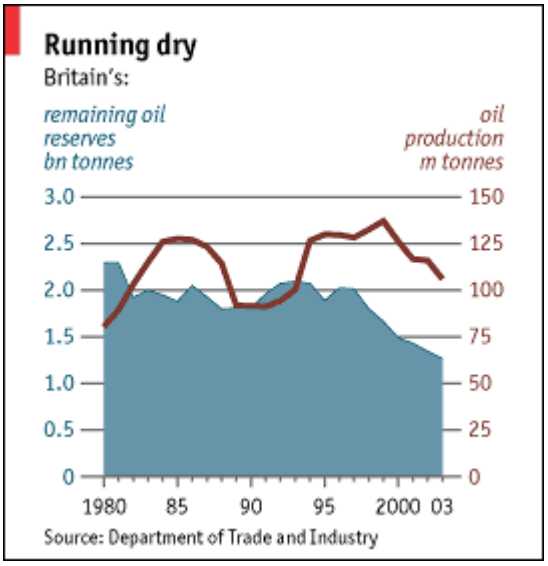
North Sea oil

Small is better than nothing

Nov 4th 2004 | EDINBURGH
From The Economist print edition

Small firms are replacing the majors in the North Sea

IN THE Cromarty Firth, a sheltered arm of the North Sea reaching into the Scottish Highlands, hulking oil platforms which had been floating idly are now shuddering into life. Bad news for motorists is good news for oilmen. But, as North Sea oil runs out, it's increasingly the smaller oil companies, rather than the majors, that are benefiting from the sudden surge in activity.



In 2003, Britain was pumping out 2.9% of the world's oil supply, only slightly less than Kuwait's 3% share. But after oil was first struck in 1969, production peaked in 1999 and is now declining. Discoveries are lagging behind production, and the amount left is steadily dwindling (see chart). Nevertheless, Rhodri Thomas, an analyst with Wood Mackenzie, an energy consultancy, reckons there is enough undiscovered oil and gas to make offshore work profitable for another 25-30 years. Around 60 exploration and appraisal wells are expected to be drilled this year, a third more than last year.

Many of them will be drilled by small firms. Mr Thomas says that last year small players owned 3% of the fields earmarked for development. Now their share has risen to 26%.

Why are the majors no longer so excited by the North Sea? Mostly because they have better things to do elsewhere. In 2003, for example, BP sold the 30-year-old Forties field, one of the biggest in the North Sea, to Apache, an independent American producer, for $630m. That released capital and manpower for work in parts of the world, such as Russia and Angola, where the size of the fields gives the majors an advantage, says BP's Robert Wine.

Meanwhile, small companies moving into the North Sea are benefiting from fast-improving technology, which cuts the cost of developing smaller new fields in difficult places and makes it cheaper to wring the last drop out of old fields. Forties' output, once 500,000 barrels of oil per day (24m tonnes per year), had dropped to 45,000. Apache has now pushed it up to over 70,000.

The minnows are also making some quite big discoveries. This year, a group of mainly Canadian firms started developing the Buzzard field which, with about 460m barrels of oil, is about a fifth the size of Forties. Maybe Britain can shadow Kuwait for a while yet.

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Gangmasters

Salad days

Nov 4th 2004
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How 21st-century-style shopping means more 19th-century-style work

WHEN 19 Chinese immigrants drowned while picking cockles in Morecambe Bay in February, outrage was quickly followed by a new law. The Gangmasters Bill and a code of practice for gangmasters, launched in the House of Lords later this month, are both aimed at labour-providers, or gangmasters. The targets of the bill are those who operate outside the law, often using illegal immigrants, paying their workers little and the taxman less. But many politicians are also uncomfortable with the legal side of the business, which involves lots of immigrants working through the night, often for £4.85 ($9) an hour (the minimum wage), moving from workplace to workplace at a moment's notice, with no job security. They regard this sort of employment as belonging to the 19th century. But changes in consumer demand mean that it is flourishing in the 21st century.

Much of the prepared food sold in supermarkets is washed, chopped and bagged in pack-houses by workers supplied by specialist agencies (or gangmasters). Their business is booming. “There's much more work around now,” says Gary Norman of One Call, a medium-sized agency that places 400-600 workers in temporary jobs every day. One pack-house has just invited bids for 2.7m hours of temporary work, equivalent to over 1,000 full-time jobs. That's thanks to a combination of spoilt shoppers and snappy purchasing by supermarkets.

Before carrots were sold as batons and broccoli as florets, jobs in pack-houses were steadier. Most goods had longer shelf-lives, buyers for shops did not change their minds too often and the shops closed early. The work was stable enough that, in the mid-1980s, much of it was done by mothers who could be home by the time school finished. The first blow to this pattern came from Sunday opening and the fax machine. The second, final one is more recent.

Shoppers have brought about the change. They have given up cooking. Work that was once done by wives in kitchens is now done by workers in factories. Bagged salads, for instance, which consist of washed and chopped leaves, often with some rustic-looking croutons and a sachet of dressing, didn't exist a few years ago. Now Tesco sells over £150m-worth ($275m) of them a year. Shoppers also want to buy at odd hours, making the convenience-store market (dominated by the big supermarkets) the fastest-growing bit of the groceries business, according to IGD, a food and groceries think-tank.

To meet these demands without holding excess stock, which is liable to rot, the supermarkets have made their supply chains shorter. Data from the check-out goes straight to buyers, who can tweak their orders, via an intermediary, throughout the day. ASDA, whose parent company, Wal-Mart, has perfected this art in America, is now moving its purchasing to an internet-based system that will speed things up further, by allowing buyers and sellers to deal directly.

The pack-houses and their workers have had to become leaner. Geest, one of the largest pack-houses, says its workers typically have six hours to turn round an order. And those orders are as changeable as the weather. A warm bank-holiday weekend normally brings a run on salad, to eat with some charred sausages. A cold patch means soup is in demand. The only way to manage the peaks and troughs is to hire temporary workers, who can be bussed in by gangmasters at short notice. Jennifer Frances of Cambridge University says she has seen workers who turned up in the morning, expecting to work all day, sent off to another job at midday when a supermarket cancelled an order.

The workforce has changed to cope with this hard, irregular work. Tony Davies of Provista, a labour-provider (whose workers even make pies for Harrods), says that a couple of years ago his workers were typically British nationals who drifted in and out of the labour market. They were superseded by refugees, who in turn have now been replaced. “It was amazing how fast they cottoned on to scams, to

the point where they were not much more reliable than local people," says Mr Davies. Now Provista goes to eastern Europe every month and recruits workers from there.

MPs may not like these developments, but the gangmasters' business has survived both opprobrium and regulation before. An Agricultural Gangs Act was passed in 1867, prompted by concerns for the morals of women working alongside men in the fields. Reports circulated of them hitching up their skirts to pee, and shouting obscenities across the rows of turnips. At least the Poles and Czechs are better behaved.

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Calvinism

Zen and the art of head-butting

Nov 4th 2004
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A celebration of Scottish gloom

THE clash of civilisations said to be tearing the modern world apart is usually thought of as dividing East from West or Christianity from Islam. But a new interpretation suggests that the real divide is between California and north-east Scotland.

Disgusted by the detritus of “Little Books”—of Calm, Happiness, Wisdom, Confidence, Buddhism and anything that is good, kind and beautiful—seeping over from America, Bill Duncan, the head of English at Carnoustie High School in Angus, has produced a slim volume expounding an alternative philosophy. “The Wee Book of Calvin”*, a collection of aphorisms and essays celebrating the spirit of the foggy coastline around Dundee, seeks to drive out warm Californian optimism with a freezing blast of Scottish gloom.

The aphorisms Mr Duncan has collected, partly from his grandparents, partly from overheard conversations, express an attitude to life honed by a potent mixture of cold, whisky and Presbyterianism. Physical contact—except through violence—remains taboo: hence the book's subtitle, “Air-Kissing in the North-East”. Local newspaper headlines help illustrate the nature of the local culture: “Broughty Ferry youth assaulted barman with gannet”, for instance, and “Dundee bride head-butted groom at altar”.

The central themes the aphorisms suggest are:

•Predestination: Ye can tell the criminal fae the face in the crib.

•The impossibility of redemption: Soap an waater waash dirt awa but a sin stains black forever.

•Stoicism: Self-pity never biled a haddock.

•Hostility to aspiration: The bonniest flooer wilts the quickest.

•Misanthropy: Millions of women bring forth in pain/Millions of bairns that are nae worth haein.

•The virtue of work: Better busy hands than handcuffed.

The language is impressively spare, the imagery powerful—“yell no set foot outside this hoose again smellin like the inside o a hoor's handbag”—and the book is doing well among those oppressed by the compulsory cheerfulness of contemporary culture. But it is unlikely to oust the doves and lotus flowers from the sunny uplands of the self-help shelves with a creed that maintains “a glower says mair than a smile”.

*Penguin, £7.99

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Asbestos

Coughing up

Nov 4th 2004
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Britain faces a big bill for asbestos exposure at work

FIFTY years ago, asbestos was the “miracle mineral”. Tough, flexible, virtually fireproof, it was used in the manufacture of everything from socks to cigarette filters. A generation of workers was exposed before the link between some forms of asbestos and lung disease was spotted, leaving thousands of people ill and British companies exposed to a big, but unknown, liability for compensation.

On November 1st the scale of the liabilities became a little clearer when the Actuarial Profession, a trade body, published a report that estimated that liability at between £8 billion and £20 billion over the next 30 years, split evenly between insurance companies and a combination of uninsured private firms and the government.

Most of the claims will be for a disease called mesothelioma, a cancer that attacks the lining of the lungs. British asbestos use has fallen by four-fifths since 1960, and claims for asbestosis, the other major illness caused by exposure, have been steady for a decade or so. But the long lag between exposure and the development of mesothelioma means that the number of cases is still rising. The number-crunchers expect a peak of around 2,000 a year sometime between 2010 and 2015, with an average payout of around £100,000.

Especially worrying for British insurers is the situation in America, where the total cost of asbestos claims is likely to top $200 billion. Many of the American claims come from the “worried well”, and relate to a condition called pleural plaques—scars on the lining of the lung—that indicates exposure to asbestos. Sufferers have no symptoms and are not ill; indeed some studies have shown that up to half of all city-dwellers may have such scars, probably from general exposure to asbestos in the atmosphere. “People are being compensated for the fear of getting a disease,” says Julian Lowe of Norwich Union, an insurance company, and the chairman of the group that produced the report.

In Britain, claims for pleural plaques have been rising sharply, prodded by aggressive advertising by personal injury lawyers. But next week, two big insurance companies—Norwich Union and Zurich Insurance—along with the government (there because it used to own shipyards), will challenge these payouts in court. Some see this as the insurance industry trying to dodge its responsibilities. Nonsense, say the companies: paying people who are unlikely to become ill is unfair. And they point out that many pleural plaques claims are settled once and for all, meaning that the few claimants who go on to develop more serious illnesses may not get extra money. Some undeserving people will thus be overpaid, and some needy ones underpaid.

Asbestos claims brought Lloyd's of London to the edge of bankruptcy in the 1990s. But many firms, especially in poor countries, still seem to be ignorant of the legal dangers. Asbestos use in the developing world has risen fivefold since 1960, and now exceeds American consumption at its peak. “We expect that the conversations we are having today will be repeated in China in 20-30 years' time,” says Mr Lowe. Nor is it certain that the asbestos substitutes now used in the West are safe. Employers—and insurers—beware.

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About sponsorship

Fireworks

Bangmasters

Nov 4th 2004
From The Economist print edition

Fireworks are getting safer. But insurance is more expensive. Why?

GIVEN that they involve explosions, high temperatures, jollity and darkness, fireworks are pretty safe. Last year they caused no fatalities and only 1,136 injuries, mostly minor. Faulty electric blankets, by contrast, claim 20 lives a year.

Fireworks used to do a lot more damage. In the 1960s, says John Woodhead, of the British Fireworks Association, they typically caused 1,000 overnight hospital stays around November 5th, and ten times as many serious injuries. Fireworks are safer now, and used more sensibly. New laws both make it harder for hooligans to buy fireworks and penalise their misuse.

Which makes it odd that small firework displays are finding it harder and more expensive to get insured. A few years ago, there were 30-odd insurers in the market. Now there's one: Insurex Expo-Sure. Premiums were £60 for a simple policy, says the firm's executive chairman, Albert Kemp. Now they start at £267.

That matters for several reasons. Small displays are useful fundraisers for schools and charities. When the insurance costs more than the fireworks, there's less left for good causes. They may not happen at all: the number of such events has dropped by around a third in the past two years. That makes life duller, and encourages people to let off fireworks at home, which is much more dangerous, says Mr Kemp. “When you're at home there's no one to scold you if you are drinking too much: alcohol and fireworks don't mix.” Injuries from such private displays rose to 515 last year from 363 in 2002.

Why is insurance costlier? One reason is more litigation and higher damages. A claim that would have been settled for £500 five years ago would now gain compensation of £5,000, says Mr Kemp. An injury today might be settled only in five years' time; by then it could cost £50,000.

Colin Ettinger, president of the Association of Personal Injury Lawyers, says that these arguments are “a smokescreen”. He maintains that poor stockmarket returns have made insurers raise premiums for all kinds of liability insurance. It is easy to see that occasional, amateur-run events involving large numbers of people milling around in the gloaming are not hugely attractive to insurers: 70% of firework claims handled by Insurex involve “slippage and trippage”, not bangs and burns.

There are some signs of increased competition, though. Fireworks International, which makes its money selling products like the £150 Noise Pack—“DEAFinitely not for the faint-hearted”—also sells basic one-off insurance for just £50. It declines to explain how it manages this, but insurance professionals agree that premiums for well-run displays could come down a lot. Torribles, which insures Britain's 200-odd professional fireworks operators, says it plans to cut premiums by half in the coming years by insisting on consistent safety standards. The firm faces competition from Roy Musk, of CMB Insurance Services. He is launching a competing scheme with similarly reduced premiums.

That will help the professional bangmasters. But the litigation worries mean that amateur displays are probably doomed, reckons Mr Kemp of Insurex. “We will end up with static displays, run by professionals”, he says. That will mean more tipsy accidents in back gardens.

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Rickshaws

Pedallers braked

Nov 4th 2004
From The Economist print edition

Last stand of the rickshaw drivers

PEDICABS, as London's bicycle rickshaws like to be known, are a lively addition to the streetscape. Over short distances, they are quicker and cheaper than black cabs; on rainy days, they are much better than walking. Business has boomed since they started in London in 1998: there are now more than 250.

But nobody knows quite how many—or indeed anything much about the industry. The pedicabs are in a legal limbo. As vehicles, they count as bicycles, which are very lightly policed. As passenger carriers, they count, bizarrely, as stagecoaches. So long as they negotiate different fares for each passenger and journey, they can operate without further regulation.

That sounds idyllic, but it isn't. London's formidable black taxis, which enjoy a lucrative near monopoly over plying for hire on the capital's streets, hate the interlopers and want to ban them.

They first tried attacking the stagecoach loophole. That failed last year, after a long and costly legal battle. Now they are using their political clout to have the London authorities squeeze them out of business.

Transport for London, the municipal body in charge of all the capital's comings and goings, has put forward for consultation a draft bill that would fix the pedicabs' legal status as motor vehicles. They would be banned from bus lanes (which black cabs are allowed to use) and be liable for parking tickets if they stop in the street, or fines if they wait on the pavement. That would be a disaster, say pedicab operators such as Chris Smallwood, of the not-for-profit Bugbugs: “It will put pedicabs out of business for ever and be an absolute victory for the taxi drivers.”

The consultation period for the bill is just two weeks. If the pedicabs survive that, they then face another bout of regulation next year, which plans to regulate them like minicabs: drivers, for example, will have to pass a criminal records check.

The Licensed Taxi Drivers' Association insists that the pedicabs are dangerous and unsightly. It has commissioned research from the Transport Research Laboratory, a highly-regarded expert outfit, which, it says, proves that pedicabs offer no protection in the event of a collision, and have inadequate brakes.

Mr Smallwood, who set up Bugbugs as a job-creation charity, points out that the pedicabs' hunting ground is a part of London “where the traffic is hardly moving”. He and the other big pedicab operators, who rent their vehicles to freelance drivers for around £85 a week, say they are not against regulation—indeed they have been asking for it for years. They want their drivers to be able to charge fixed fares, which would be transparent and attract customers fearful of being ripped off. And mandatory insurance and licensing would weed out rogue operators with rickety, ill-lit vehicles. But such talk of licensing infuriates the taxi mafia: better to ban competition than risk it thriving.

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About sponsorship

Television

Set top knocks

Nov 4th 2004
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Why Channel 4 can't last as it is, and therefore wants more public money

WHILE the BBC's massive public subsidy has made it lots of enemies, Channel 4, which also provides public-service programming, but finances it through advertising, is everyone's darling. But Channel 4's unusual model, much-envied abroad, seems doomed.

One reason is technology. In old-fashioned homes which receive the five main free-to-air channels it has a 13.6% audience share. In those with digital, multi-channel television it has only 7.5%. Channel 4 expects to lose at least a fifth of its audience share by 2012, when the government wants to switch off the analogue television signal. That will mean lower advertising revenues: Channel 4 reckons it will be missing £100m by 2008.

Another is size. Giants like BSkyB and the newly-merged ITV can outbid Channel 4 for hit American shows such as NBC's “ER” and HBO's “Six Feet Under”. That could mean threadbare schedules, hastening the decline further.

Channel 4 wants more public money. In exchange it would renew its commitment to public-service broadcasting, which has slipped somewhat in recent years. Andy Duncan, its new chief executive, says the situation needs addressing now, not in five years' time as the media regulator, Ofcom, said in a review of public-service broadcasting in September. ITV has been allowed to merge and the BBC will get its licence fee, so now is the time to “future-proof” Channel 4 as well.

That represents a sharp departure from the ideas of Mr Duncan's predecessor, Mark Thompson, who now runs the BBC. He thought a public handout would undermine Channel 4's independence. In his day the long-term strategic direction seemed to be away from public service and towards more commercial fare. There was even talk of a merger with the privately-owned Channel 5.

It is hard for Channel 4 to plead future poverty when it is doing so well now. It will show healthy operating profits this year, having made £56m on revenue of £779m in 2003. And while BBC1 and ITV have lost viewers in recent years, Channel 4 has maintained an average 10% audience share. It also has an enviably high proportion of younger viewers. Rival broadcasters, especially the BBC, which stands to lose if Channel 4 gets more money, refuse to accept that it is in trouble.

It may also struggle to justify its *raison d'être*. Arguably, one of Channel 4's objectives, to “appeal to the tastes and interests of a culturally diverse society”, matters less than it did when the station was born in 1982. John Willis, a former director of programmes at Channel 4 now at the BBC, points out that topics such as homosexuality, once on the fringes of broadcasting, are now entrenched in the mainstream.

Asians, blacks and Chinese now have a range of specialist channels—about 50 in total—available to them on pay-television, thanks to start-ups in recent years. More than two-thirds of minorities in Britain subscribe to pay-television in order to watch these, according to Digital Media Sales in London. Channel 4 has responded by moving away from making programmes for particular ethnic groups. It mostly fulfils its remit by portraying minority characters and situations in shows aimed at a broad audience—for instance including contestants of different races in its popular reality show “Big Brother”.

The worst outcome for Channel 4 would be if Ofcom succeeds in creating the new separate public-service television body it has suggested. Even if Channel 4 won the bidding to run it, it would reap little benefit: Ofcom wants the new body's funding fenced off from its operator. But that seems unlikely. Politicians are likely to decide that Channel 4 is worth saving in its current form, one way or another: they know people don't thank them for mucking up their telly.

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Bagehot

Unhappy birthday

Nov 4th 2004
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Michael Howard became Tory leader a year ago. It's been a hard slog with little to show for it

Get article background

AS MICHAEL HOWARD peers enviously across the Atlantic, he must be thinking how much easier it is being a conservative over there than it is over here. If only the Tory leader could tap into the religious conservatism George Bush has so successfully exploited, he wouldn't hesitate to do so. But there's nothing like it in Britain—nor anything else much to help define what his party is for or against.

That is why Mr Howard so often gives in to frantic opportunism, of which the Tories' opposition this week to the government's gambling bill was a fine example. This sensibly liberalising measure tidies up some out-of-date and inconsistent regulations and removes some artificial barriers to the establishment of new casinos. Past Tory governments might well have espoused it. Until a few weeks ago, the widely-trailed and largely uncontroversial bill had attracted little attention.

But the moment the *Daily Mail* decided to mount a typically hysterical campaign against it, all common sense was banished. Mr Howard instructed John Whittingdale, the impeccably Thatcherite shadow culture secretary, to follow the *Daily Mail*'s line and attack the bill on the grounds that the government was encouraging American business interests to ensnare the vulnerable. At best, it made the Tories sound priggish, anti-American and anti-business. At worst, they just looked like hypocrites.

It is exactly a year since Michael Howard became the unopposed choice of Tory MPs to lead them into the next election. Nobody really thought that he could deliver victory: even his fans conceded that Labour's overall majority of nearly 160 was too much to overcome in one bound. But people did expect discipline and professionalism from him. Mr Howard, it was argued, had the experience and the ability to rattle Tony Blair and maximise the Conservative vote. He might only be a stop-gap leader, but he would at least keep the party in business until it was ready for power again. In other words, the bar that Mr Howard had to reach to be deemed a success was not set all that high.

Twelve months on and about six months from the likely date of the election (rumours that Tony Blair might be pondering a snap election in February can be ignored), the once impressive Mr Howard has shrunk into the job. Any hope that a moderately upbeat conference in October would result in a bounce in the polls has been dashed. Two of the most recent polls, YouGov in the *Daily Telegraph* and ICM in the *Guardian*, show the Tories on 32% and 31% respectively—about the share of the vote they managed in the 1997 and 2001 elections. The same polls, taken in October a year ago during the death throes of Iain Duncan Smith's leadership, gave the Tories 34% and 33%. Support for the government, at around 37%, is roughly the same now as then.

Consequently, morale on the Conservative benches is plummeting again, while anxiety about Mr Howard's leadership style is mounting. This week, John Bercow, who was Mr Howard's spokesman on international development (until he and two other modernising frontbenchers resigned in September after a shadow cabinet reshuffle), went public with his misgivings. He praised Mr Howard's “phenomenal energy”, while attacking his leader for opportunism over Iraq, university tuition fees and the gambling bill. He also questioned whether his party had found anything distinctive or relevant to say about reforming public services when Tony Blair was already committed to making them more market-oriented and consumer-friendly.

Some of Mr Bercow's colleagues suspect he may be on a journey that eventually takes him out of the party altogether. But it is not hard to find others who share his concerns, while feeling that it is better to keep quiet about them. The most frequent criticism of Mr Howard is that he and Lord Saatchi, the

advertising genius who is the party's co-chairman and the leader's most trusted adviser, mistake frenetic activity for progress. Frontbench spokesmen are judged on the number of headlines they get rather than the development of coherent and attractive ideas. For Mr Howard and Lord Saatchi, nothing will ever again be as good and fine as the glory days of Margaret Thatcher; hence their reluctance even to consider remaking Conservatism for a different age.

A further source of despair is Mr Howard's willingness to dance to whatever tune the editor of the *Daily Mail* decides to whistle. The *Daily Mail* is a highly successful newspaper, but, as William Hague, another unsuccessful recent Tory leader, discovered, constructing an election campaign around its prejudices is suicidal. When Labour was in the doldrums, it was fortunate that the newspapers that were sympathetic to it were keen supporters of the party's modernisers. By contrast, the pro-Tory newspapers have done nothing but damage to their party.

The generation game

As nearly all Tory MPs assume that Mr Howard is indeed heading for a heavy defeat, it is not surprising that thoughts are already turning to the succession. After selecting three duds, it has dawned on them that trying to pick a leader in the immediate aftermath of losing an election may not be a very good idea. Ideally, Mr Howard, who will be nearing 70 when the 2009 election is fought, should carry on for a bit to allow a youthful but competent successor to emerge, if such a person exists.

The complicating factor is the March 2006 date that the government has pencilled in for the (very winnable, from the Tory point of view) referendum on the European Union constitution. It would seem churlish to deny Mr Howard a last hurrah; but his detractors worry that the excitement of victory might induce him to carry on. That would be some consolation for Mr Blair.

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Correction: the EU constitutional treaty

Nov 4th 2004

Last week, Bagehot (print edition only) decided to stage the signing of the European Union constitutional treaty in Brussels. In fact, the ceremony took place in Rome. Bagehot apologises for any confusion caused by his howler.

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Pharmaceuticals

Big trouble for Merck

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AP

Merck is in a fight for its life. Other pharmaceutical giants are watching nervously

CAN the news get any uglier for Merck? Barely a month after Ray Gilmartin pulled Vioxx, a hitherto blockbuster arthritis drug, from the market, Merck's boss suddenly finds himself fighting for his job. Since he broke the news about Vioxx, citing new evidence that the drug raises the risk of heart attacks and strokes, the firm's share price has nearly halved, knocking over $30 billion off the value of the world's fourth-biggest drug company. This week, plaintiff lawyers leaked to the press an apparently damning e-mail and internal company documents (which were supposedly sealed under court order pending lawsuits involving Vioxx), calling into question Merck's reputation for probity. As the lawsuits pile up, the proud, insular giant is giving every appearance it has no idea what it is dealing with. The firm is “bewildered”, says one well-placed source.

Panic may follow shortly. Mr Gilmartin claimed that Merck was pulling Vioxx voluntarily because it wanted to put “patient safety first”. But an article in the *New England Journal of Medicine* on October 21st blasted Merck for putting “sales over safety” and its regulator, the Food and Drug Administration (FDA), for sitting on its hands as evidence of health risks mounted. The leaked e-mail and other documents suggest that Merck knew about the drug's potentially lethal side-effects as early as 2000, that it bullied outside researchers who questioned the drug's safety, and that it schooled its army of salesmen to “dodge” tricky questions about Vioxx from doctors. Angry shareholders want Mr Gilmartin's head.

Hard to swallow

Merck says that plaintiff lawyers have selectively culled a handful of documents from millions of others amassed in preparation for trial, that these documents have been taken out of context, and that they do not accurately represent the conduct of its employees. Citing the court order, however, Merck declines to furnish further context itself. Yet nobody is in the mood to wait for due legal process. The attentions of a powerful Senate committee have suddenly turned hostile. The FDA may be manoeuvring to protect its back. Despite Merck's modest debts, strong cash flow and $10 billion in cash and marketable securities, even the firm's bondholders are spooked. On November 2nd, Standard & Poor's, a credit-rating agency, said that it would review whether to strip Merck of its prized triple-A credit rating. Excited speculation about the cost of the Vioxx mess has shot into the tens of billions of dollars.

Merck says that, as of October 15th, the company had been named as a defendant in about 300 Vioxx lawsuits. These include personal-injury suits, allegations that Merck violated consumer-protection laws and suits by shareholders alleging that Merck's top executives profited from false and misleading statements about the drug. Worldwide, about 80m people have taken Vioxx since it went on the market in 1999, earning the firm $2.5 billion in 2003. The *New England Journal of Medicine* article suggests that there may be “tens of thousands of patients who have had major adverse events”. The lawyers smell blood.

Wyeth, a rival drug company, has taken accounting charges of $16.6 billion to cover the legal costs of suits involving fen-phen, a diet-drug cocktail which caused the heart valves of some patients to deteriorate. Merck says that it has enough insurance to cover $630m of personal-injury claims. But it says that disputes with insurers could threaten coverage for claims from future suits. Merck says that it cannot estimate its legal liabilities, and that it has not yet taken any reserves to cover these costs.

The industry's giant sales and marketing machine is now undermining the cause of public health

Do Merck's legal problems merit the punishment that the stockmarket has dished out? As Victor Schwartz of Shook, Hardy & Bacon, a law firm which specialises in defending drug lawsuits (but does not represent Merck), points out, the personal-injury cases will be hard to prove. Nobody is (yet) accusing Merck of covering up hard evidence that Vioxx was unsafe: the allegation is that neither Merck nor the FDA seemed inclined to investigate suspicions of a problem. The firm's direct-to-consumer advertising made no mention of the potential risks of taking Vioxx. But what counts in drug litigation is the information that goes to doctors, who are in charge of prescribing medicines. This information did include a warning about possible heart damage. Plaintiffs will have to prove that Vioxx caused their health problems. That is a high hurdle to clear, especially if the health problem is a general ailment such as heart disease. This should limit the pool of potentially successful litigants to younger non-smokers who did regular exercise and so on, says Mr Schwartz. Most Vioxx users were elderly.

The many consumer-protection lawsuits could be more costly, especially if plaintiff lawyers put together large classes of Vioxx patients all wanting their money back. On top of that, there may be punitive damages if Merck is judged to have consciously disregarded the safety of its patients. The internal documents suggest there may be some evidence to make this case, but it will be difficult to prove. And a recent ruling by the Supreme Court clarified that a firm cannot be punished more than once for the same offence. This caps Merck's costs.

The likeliest explanation for the wide-eyed panic in the markets is that Merck's investors are casting their eyes wider, and recoil from what they see. In the past few years, the legitimacy of the entire American drugs industry has eroded alarmingly. Wall Street investors want profit growth. As efforts to develop new classes of drugs have faltered, drug-firm bosses have squeezed their businesses to wring extra profits from existing products. But the long-term consequences of these short-term actions are now being felt. A steep rise in the price of branded drugs, a heavy consumer advertising blitz and the advent of costly “me-too” drugs which seem to differentiate themselves only in their marketing have fed the idea that the industry's giant sales and marketing machine is now undermining the cause of public health.

The sticking-plasters that the industry has applied to these problems seem just as counter-productive. As big drug firms shovel money into the pockets of politicians and redouble their army of lobbyists in Washington, DC, public cynicism has rapidly deepened. The politicians, meanwhile, feel the need to attack the industry at every opportunity: everybody understands how deeply they are in hock.

Nor is there any clear path to reform. Mega-mergers are judged to have failed. Perhaps drug firms could cut costs and outsource production and R&D. Ultimately, however, they need to find sales from beneficial new products. The biotech industry shows promise. But it cannot fill the looming gap in sales as the big drug firms' patents for blockbuster drugs expire in the next few years.

Meanwhile, the costs of the drug industry's current strategy mount. Ultimately, it will be the willingness of a jury to believe that Merck acted badly that will determine the firm's punishment. Not long ago, Merck was one of America's most-admired and respectable companies. At the moment, Americans seem more than willing to believe the worst.

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Volkswagen

Darwin meets job creationism

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For makers of the “people's car” there is a third way

AP

United against Darwin

IN THE German car industry two business models, Darwinism and “the third way”, run side by side. Darwinist General Motors (GM) of Detroit will close one of its European plants—either in Rüsselsheim, Germany, or Trollhättan, Sweden—depending on which wins the bid to jointly produce its Saabs and Opel Vectras more cheaply. Workers at these two GM subsidiaries fear that a decision may come even before Christmas.

Meanwhile, bosses at Volkswagen (VW), after much strident posturing, have shown their true job-creationist colours and promised their western German workforce job security until 2011 in exchange for a wage freeze until 2007 and more flexible working hours. VW will also pay these 103,000 workers €1,000 ($1,200) each in cash. It expects the deal to cut its labour costs by 10%—only one-third of the way to its target of €3 billion by 2011. The stockmarket punished VW for this compromise by knocking 3% off its share price on November 3rd. A spokesman for IG Metall, Germany's biggest blue-collar union—95% of VW workers are members—called the reaction of traders “perverse”.

Europe's biggest carmaker is struggling, particularly with its Volkswagen brand, which last week registered a €47m operating loss for the nine months to September. Its workers cost 11% more than at other carmakers in Germany and they take home 20% more than the union wage. And yet, until a modicum of common sense struck this week, they were asking for a 4% pay increase. But, like all German industrial workers, what they really crave is job security.

Can VW afford to make such a promise? The stockmarket seems doubtful. Yet VW is currently protected from the full fury of the financial markets. The state of Lower Saxony owns 18% of the firm and, according to a 1960 law, no shareholder can control more than 20% of its voting rights. So it is safe from takeover, unless the European Commission wins a court case it has brought to overturn the law. GM's Opel factory in Rüsselsheim may experience either sudden death or the survival of the leanest. VW's six west German factories are likely to suffer a more genteel fate over the next few years. And yet if VW continues to featherbed its workforce at the cost of the firm's strategic flexibility, they may not survive much beyond that.

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Business on television

Bad business

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Business news is rapidly losing its appeal to broadcasters

BRIEFLY in the late 1990s, two cable television networks became America's national obsession. CNBC and CNNfn, with their constant stream of business news delivered in the manner of a sports show, held the nation's attention as everyone cheered on share prices to record highs. Bosses, seeking fame and a higher share price, competed to appear on shows whose hosts—such as Maria "money honey" Bartiromo—became celebrities. Advertisers paid top dollar for the glued eyeballs of so monied a demographic.

Alas, the fame was all too brief. In December, CNNfn will be taken off the air after nine years. Viewership was so small that it had become unmeasurable. CNBC is doing better but not well, with just 164,000 viewers a day, according to Nielsen Media, a research firm—though many more ignore it as it plays silently on the flat screens in bank offices.

If there is any surprise, it is that Time Warner's offering should have been the first to die. Because of its direct ownership of cable systems (that could provide access to viewers) and CNN (thus providing a brand and promotional partner) and numerous financial and non-financial publications (thus providing content), CNNfn should have been ideally placed to exploit whatever niche did exist. Instead, even obvious synergies have not been exploited.

In big markets such as New York, for example, Time Warner owns a big cable operator as well as a popular local news station (New York 1). But it never bothered to encourage viewers to hop between its various networks. Viewers of New York 1 or CNN who wanted more detail on a business story would be hard pressed to find CNNfn. The model for producing content was also flawed. Most of the guest "talent" appearing on air was uncompensated and often worth less than it was paid. Guests appeared mostly because they had something to sell. Nor did CNNfn develop other business journalism superstars to balance the increasingly protectionist Lou Dobbs. CNBC has Ms Bartiromo, James Cramer, Larry Kudlow and more. Even Neil Cavuto on mainstream Fox channels is better known than CNNfn's regulars.

The greatest flaw, however, may have been the underlying idea. Though, ostensibly, a network devoted to business news is about business, in fact, during the 1990s when its popularity was peaking, business news was really about getting rich. Watching share prices crumble was less fun, and being misled by bulls was more costly than being misled by bears. Day traders have largely been wiped out. The reality of business—a tough, often tedious slog—and of investing may not be compelling enough for television. Last year people found it more enjoyable to watch Donald Trump pretend to share the secrets of getting wealthy. This year, as his Atlantic City casino empire flirts with bankruptcy, that too is losing its appeal (see article). How long before CNBC, like CNNfn, is fired?

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Television

Grim reality

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America's appetite for reality television is flagging

“THE Rebel Billionaire: Branson's Quest for the Best” will make its debut on America's Fox network next week, featuring a British tycoon, Sir Richard Branson, trying to make as successful a reality-TV show as an American mogul, Donald Trump, star of “The Apprentice”. A contestant will get dumped in each episode; the winner will get $1m and a job. The timing is not auspicious for Sir Richard. Reality TV has faltered in the American ratings recently, with viewing down for “The Benefactor”, “The Bachelor” and even “The Apprentice”. New shows, such as “The Next Great Champ” and “The Last Comic Standing”, have done so badly that they have been relegated to cable networks.

Too many shows of obviously inferior quality have pricked reality's bubble, says David Poltrack, head of research and planning at the CBS network. According to CBS's audience research, people are especially fed up with the glut of copycat programmes that schedulers have rushed on to the air following the genre's spectacular success over the past few years. That will make it hard for any new reality show—good or bad—to get a strong start, he says. It also bodes ill for Fox's forthcoming dedicated reality-TV cable channel—especially as there are two of them already.

So is the genre over? Network executives and advertisers agree that the strongest and most original shows will survive—CBS's “Survivor”, for instance, remains popular—although they will no longer be able to count on any me-too programme succeeding. Reality TV is still far cheaper to make than drama. Advertisers like its younger audiences.

There is little sign of fatigue outside America. Familiar formats are making their way across Europe. In Britain, ratings are high for ITV's “I'm a Celebrity, Get Me Out of Here”, Channel 4's “Big Brother” and Channel 5's “The Farm”, in which a celebrity female contestant recently shocked viewers by manually extracting semen from a pig. British telly may in future make fewer reality shows, but (chiefly) only if the publicly funded BBC decides to emphasise “public-service” fare in a bid to persuade the government to renew its subsidy.

Reality TV's pause in America is allowing scripted drama to bounce back, to the relief of professional actors and scribes who complain of being under-employed. The hit of America's autumn season is “Desperate Housewives”, a highly-sexed fictional version of suburban life. Yet reality's techniques are influencing even scripted programmes, says Alan Boyd of Fremantle Media. ABC's new drama, “Lost”, for instance, about passengers surviving a plane crash, looks rather like “Survivor”. “The Office”, a British comedy that has received critical acclaim in America too, looks much like reality TV with a script.

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Consumer goods in India

Slow moving

Nov 4th 2004 | MUMBAI
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Can Unilever's Indian arm recover from some self-inflicted wounds?

UNTIL recently, Hindustan Lever, a 51% subsidiary of Unilever, an Anglo-Dutch consumer-goods giant, was revered as a model of how to do business in the vast and complicated markets of rural India. As the country's biggest "fast-moving consumer-goods" (FMCG) firm, its sales, partly driven by acquisitions, had grown by over 12% a year in the five years to 2000, and profits by 25%. But this year profits are down, and its share price has tumbled—by more than 50% at one point in August. The model is somewhat tarnished.

Quarterly results published on October 28th showed after-tax profits down by 31%, after an old-fashioned price war. Nirma, a local brand, and Procter & Gamble, Unilever's main global rival, have pushed cheaper detergents, forcing Hindustan Lever to cut the price of its brands, such as Surf Excel. In the shampoo market, Hindustan Lever acted pre-emptively, giving away a free bottle for each one purchased.

The firm may have only itself to blame for the ferocity of the competition. Pursuing a strategy adopted by its parent in late 2000, over three years it slashed the number of its brands from 110 to 36 "power brands", on which it lavished its attention. The strategy was, in one sense, a spectacular success. Operating margins grew from 13% in 1999 to a remarkable 21% in 2003.

Yet, says Raamdeo Agrawal, of Motilal Oswal, a stockbroker, Hindustan Lever hit "air pockets in its business model". Its market dominance allowed it to raise prices even as its raw materials were getting cheaper. As a result, he says, margins grew at the expense of volumes. This attracted competition and angered consumers.

This was at a time when FMCG sales in India were slowing, for two reasons. For four years, 1999-2002, much of rural India suffered from failed monsoons, seriously denting spending power. Second, spending patterns were changing in both rural and urban India. Discretionary incomes went elsewhere: into mobile phones, televisions, white goods and motorcycles. According to research by KSA Technopak, a consultancy, the share of the urban purse spent on "personal-care" items fell from 8.8% in 2002 to 7.6% in 2003. Consumer durables, meanwhile, rose from 5% to 6.6%. Spending on mobile phones grew by 96%.

A spokesman for Hindustan Lever insists that this is a "transitory phase", and that FMCG penetration in India is so low that the potential for growth remains huge. It has been investing heavily for the expected upturn: its spending on advertising in the latest quarter was up by 27%. It is also pursuing an interesting project, called "Shakti", to extend its marketing through rural "self-help groups". They will be able to offer tiny loans—microcredit—to support a direct-to-home distribution network. It expects to have 25,000 Shakti entrepreneurs by next year, covering 100,000 villages and 100m rural consumers.

The market, at least, seems to share some of the firm's optimism. The recent results did not dent its share price, which reflects a price-earnings ratio of about 21. Despite its loss of momentum, it remains the biggest force in the business, with a much-respected management team, which is unlikely to make the same mistake twice.

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Business in Poland

Who is in charge?

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From The Economist print edition

The latest reminder that politics and business are never far apart in Poland

POLAND'S largest oil company, PKN Orlen, is gaining a reputation for losing bosses. In June, its then chief executive was forced out amid a parliamentary investigation into claims that Poland's secret services helped to oust his predecessor. In August, PKN's supervisory board dumped Jacek Walczykowski, then the firm's president, barely a fortnight after he was appointed. Poland's government, which owns 27.5% of PKN, wanted him out because of his ties with Jan Kulczyk, Poland's richest businessman, who owns 4.8% of the firm. Last month, Igor Chalupec, a veteran banker, took over. Even if he keeps his job for a while, he will struggle to assert his authority over a firm beset with shareholder conflicts and political meddling.

While PKN's troubles stem largely from state patronage—successive post-communist governments have used their stake in the firm to appoint political allies to its board—private investors have played a part, too. The parliamentary commission probing PKN's boardroom shenanigans has asked Mr Kulczyk to testify on November 9th about why, according to recently declassified intelligence documents, he met with a reputed Russian spy to discuss the sale of PKN's smaller domestic rival, Grupa Lotos, to Lukoil, a Russian oil group. One document claims that Mr Kulczyk boasted of his ability to deliver the refinery to the Russians because of his closeness to Poland's president, Aleksander Kwasniewski. This has caused a political storm in Poland, a country not fond of Russia. Mr Kulczyk is nowhere to be seen.

When PKN began to jostle for position as central Europe's oil sector consolidated, its hand was weakened by the government's reluctance to sell part of its stake to a regional rival. MOL, Hungary's national oil and gas firm, whose planned alliance with PKN was thus thwarted, has since done two cross-border deals in the past four years. (PKN finally followed suit this year, buying Unipetrol, the Czech Republic's main oil firm.) “Management's wings have been clipped [by the government],” says Raimondo Eggink, an independent member of PKN's supervisory board.

With nationalistic sentiment running high, Jacek Socha, Poland's treasury minister, has drawn up laws giving the state the right to veto important decisions in “strategic” firms, including PKN. While he claims that these do not fall foul of a recent ruling by the European Court of Justice against government “golden shares” in national champions, the bleak track record of Polish privatisation does not inspire confidence.

Mr Chalupec is in a tight spot, especially if he wants to revive the alliance with MOL. That makes sense, reckons Merrill Lynch, in part because it would “dilute the Polish government's stake in PKN [and] provide management with [more] flexibility to pursue strategic options.” But that may not be what Poland's government wants—especially with parliamentary elections only six months away.

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Non-financial reporting

Wood for the trees

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Are company reports on their social and environmental impact any use?

CO-OPERATIVE Financial Services (CFS) is a medium-size banking and insurance business with its roots firmly in the north of England and the 19th century. But in one respect at least it is a 21st century world leader. In a ranking of firms' non-financial reports, CFS came out top, ahead of second-placed Novo Nordisk, a Danish drug company, and BP, the British oil giant. The ranking, published this week, has been prepared by the United Nations Environment Programme and SustainAbility, a consultancy, "in partnership with Standard & Poor's" (S&P), the first time a credit-rating agency has been involved.

In their non-financial reports, firms volunteer an overview of their "environmental and social impact" during the previous year. Since the last such ranking, in 2002, many more firms have chosen to produce non-financial reports. At the same time, it is claimed, their quality has increased—as, less happily for the environment, has their length. British American Tobacco's (BAT) runs to some 200 pages.

Apples and pears
Ranking of 2003 non-financial reports

Rank	Company	Global headquarters
1	Co-operative Financial Services	Britain
2	Novo Nordisk	Denmark
3	BP	Britain
4 =	British American Tobacco	Britain
4 =	British Telecom	Britain
6	BAA	Britain
7	Rabobank	Netherlands
8 =	Rio Tinto	Britain
8 =	Royal Dutch/Shell	Netherlands/Britain
10 =	Hewlett-Packard	United States
10 =	Unilever	Netherlands/Britain

Sources: SustainAbility; Standard & Poor's; UNEP

What was, ten years ago, a quirky, voluntary fringe practice is now becoming mainstream—in Europe, at least. Only two American firms are in the top 20 (HP and Ford), but several of Europe's biggest businesses are there (BP, BT, Royal Dutch/Shell, Unilever). The British government is proposing that big quoted firms be required to publish some form of such accounts annually. It had intended to introduce the requirement next year, but last month was persuaded that businesses need more time to take on board the implications.

The practice started largely in response to pressure from non-governmental organisations (NGOs), which claimed, often contentiously, that many firms lacked social and environmental responsibility.

Yet even as NGOs are becoming more cynical about what firms are producing, some investors now think it is (or could be) a valuable source of information, such as about business risks in a swathe of areas not included on standard financial balance sheets. "We are not social activists; we're independent risk assessors," says George Dallas of S&P. The information in non-financial reports "contributes to building up a company's risk profile." And although it has still not been convincingly demonstrated that good environmental and social practices create value for shareholders, it is clear, says Mr Dallas, that bad ones can destroy it. Exxon's cavalier attitude to the oil spillage from the *Exxon Valdez* drove customers away from its pumps.

Window dressing

The style and content of non-financial reports vary greatly. Some firms spend much time and effort giving out information of uncertain value. Among its targets for this year, for example, CFS aims to maintain its CO_2 emissions from energy use at less than 0.7kg per customer account—a curiously meaningless statistical correlation.

Others undermine their publication's credibility by saying one thing and doing another. BAT, for example,

says, “We believe that relevant and meaningful information about our products should continue to be available.” Yet the firm makes it very difficult to gain access to the 6m-7m pages of documents about its marketing that litigation by the state of Minnesota forced it to put on the public record.

Currently these can be viewed—by appointment only—at a depository in Guildford, a town some 30 miles south of London. At the end of October, a five-year effort to get around this obstruction, led by the London School of Hygiene & Tropical Medicine, the University of California and the Mayo Clinic, ended with the launch of an independent website (www.bat.library.ucsf.edu) where about 1m pages of documents can be viewed.

The only tool standardising non-financial reports is the Global Reporting Initiative (GRI), a broadly supported checklist of dozens of questions to which almost all of the best reporting firms pay lip service. Rob Lake, head of socially responsible investment engagement and corporate governance at Henderson Global Investors, says “the GRI framework is a good one”. But firms can (and do) choose carefully which of its questions they answer.

One which particularly interests investors such as Mr Lake is the GRI's request for a geographical breakdown of taxes paid. (Whether most shareholders really want this made public, given the hostile publicity that low bills might attract, is debatable.) Yet only Anglo-American attempts to provide such a breakdown. BAT, which goes through the GRI list methodically, bluntly states its tax data “are not reported by country”, and leaves it at that. Yet it is happy to report how many cubic metres of water it uses for every million cigarettes it makes (7.84, if you're interested).

The only audit performed on these reports is an “assurance statement”. Many of these are written by the army of consulting firms that has arisen in response to this new business opportunity. CFS uses four different such firms to “provide audit and commentary” on its 2003 report.

The big accounting firms are now developing this side of their business. BP's assurance statement is prepared by Ernst & Young, the auditor of its financial accounts. Despite the suspicion that Ernst & Young might not wish to antagonise such a big audit client, its report is in places critical. “We consider that BP could have covered the following subject areas in more depth,” it says, listing among other things the adequacy of its pension provision for employees, and legal challenges over its $3 billion pipeline from Baku on the Caspian Sea to the Mediterranean port of Ceyhan.

The art of non-financial reporting is evolving and “evolution is always messy”, says John Elkington, the chairman of SustainAbility. Firms have been free to disclose only what they wished. But if investors follow S&P in recognising “the importance of non-financial disclosure in the overall assessment of a company's risk profile”, that may not be good enough.

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The motor industry

Alternative driving

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Two neglected groups of drivers are the focus of this year's Tokyo motor show

EPA

Test driving the latest trolley

INSTEAD of the luxury cars promoted to the rich by hordes of pretty girls that are the standard fare of most motor shows, the new designs and technologies unveiled, along with pretty girls, at the Tokyo motor show, which opened on November 3rd, were focused on two often neglected groups of drivers. As it has done every other year since 2000, the show focused on commercial vehicles. Japan's carmakers and their global partners provided lots of excitement for those who earn their living behind the wheel by showing off the new features they have added to cargo haulers, fire engines, cop cars, dump trucks, ambulances and so on. And they trumpeted their latest innovations for the disabled.

As well as better ramps, lifts and doors to assist disabled passengers, several carmakers showed off new designs for the driver's seat that rotate and slide towards the ground to help wheelchair-bound drivers get behind the wheel more easily. There were contraptions that help a driver to fold his wheelchair and stash it in the car after getting into the user-friendly driver's seat. New cockpits make it easier for a driver to operate a car more safely without using his feet. Toyota, for example, unveiled a new concept car, dubbed “Welcab”, with a driver's seat that doubles as a wheelchair. The Welcab includes a clever one-handed steering column with a strap. That allows a driver to steer more easily while using his free hand to brake or accelerate with a well-placed hand lever.

Meanwhile, numerous innovations were aimed at truck drivers and other vehicle-based workers. As well as cleaner diesel engines, new digital technology allows trucks to alert their drivers when they are driving unsafely or in environmentally unfriendly ways. An alarm may sound if a driver is idling for too long, say, or throttling improperly. Sonar technology can detect obstacles in the road before a driver sees them.

Better still were the latest creature comforts. Hino, a Japanese firm, and Scania, its Swedish partner, showed off a tractor cab that European journalists have already named the 2005 truck of the year. The cab doubles as a studio, with loft and kitchenette. In future, truck drivers may never want to go home.

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Face value

Lord of the raiders

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The enduring significance of Lord Hanson, who died this week at the age of 82

THEY don't make businessmen like James Hanson any more. Tall, handsome and charming, a dilettante scion of a Yorkshire business family, in the 1950s he dated film stars such as Jean Simmons and Audrey Hepburn. He remained charismatic and charming to the end, but also became a hugely successful businessman—Britain's leading “corporate raider”. Though hugely controversial for much of his career, in many ways Lord Hanson's business philosophy is now standard practice.

After Lord Hanson and the late Gordon White, who was also to become a peer, teamed up in the 1960s, they founded a greetings card business and set about buying other companies, making fertilisers and bricks, to create a conglomerate known as Hanson Trust. By the 1980s, the firm was swooping on corporate prey on both sides of the Atlantic—preferring dull, undermanaged businesses in unglamorous sectors such as batteries, locks and safes. Like his fellow corporate raiders in America, including private-equity firms such as Kohlberg Kravis Roberts (KKR) and Forstmann Little, and wealthy individuals such as Ronald Perelman and Carl Icahn, Lord Hanson drew on innovations in the financial markets and new management thinking.

He saw that many firms were valued by the stockmarket according to the historic prices of their assets, rather than their (more valuable) potential to generate cash, and that fast-growing debt markets were willing to lend large sums against future cash flow. So buying an undervalued firm with lots of debt could quickly pay for itself. He also saw that many big firms were not managed to maximise shareholder value, and so contributed mightily to their own low valuation. This was especially true of diversified, strategically driven conglomerates. Hanson was itself a conglomerate, but differed crucially in that it bought firms because they were cheap, not for long-term strategic goals: Lord Hanson often said that if anyone showed interest in buying his group, he would send a taxi to bring them to discuss terms.

In the hands of Hanson Trust, firms were run to generate cash. Managers were loaded with incentives and left to get on with the job—usually involving determined cutting of such superfluities as lavish corporate headquarters (or, said critics, of investing in long-term growth). The cash generated went to repay debt used to fund the acquisition, and to deliver dividends to shareholders, who rewarded the firm with a rising share price.

Lord Hanson's greatest deal was probably the 1986 purchase of Imperial Group, a British tobacco firm

with a diversified portfolio of sleepy businesses. He paid for the deal entirely by selling many of Imperial's subsidiaries, leaving him with a business that made an operating-profit margin of nearly 50%.

The exploits of corporate raiders did not go down particularly well even in America's capitalist heartland; they appalled many people in a Britain still struggling to get out of its post-war socialist slump. Although knighted by a Labour prime minister, James Hanson was ennobled by an admiring Lady Thatcher, who said that she wanted to run the country like he ran his businesses. By the mid-1980s Lord Hanson was widely viewed as the very essence of the supposedly ruthless capitalism that characterised the decade. After buying Imperial, he was likened to a dealer who bought a load of junk, tarted it up and sold it on as antiques.

Lord Hanson's main concern was, he said, shareholders, followed by customers, with employees coming last—an attitude that led him to be labelled an “asset stripper”. This cost him dear in 1991 when the establishment rose up to stop him buying ICI, a chemical firm with one of the most famous names in British industry. Although he bought a 2.8% stake in the firm, he never launched his bid, faced with the sort of moral indignation that the British usually reserve for a Tory cabinet minister caught in bed with his secretary. ICI hired Goldman Sachs to tell journalists that Hanson's accounts were a house of cards, and used corporate spooks to dig into his business dealings. They came up trumps, finding that Lord Hanson's partner, White, was running racehorses at shareholders' expense. Hanson retreated, never again to contemplate a deal so big. Five years later, the adventure ended when Hanson Trust split itself into four separately quoted firms, covering energy, chemicals, tobacco and bricks.

Shareholder value

In the 1980s, Hanson's share price outperformed Britain's top 100 firms by an astonishing 368%. But by the mid-1990s, it was falling in a rising market, as the intense scrutiny of the ICI affair led many investors to question the sustainability of its profits, which had come to depend in part on complex tax deals. Yet the asset-stripping charge was unfair: he built a genuine transatlantic business that, at its peak, employed 90,000 people.

In part, Hanson Trust was less necessary than it had been. Its techniques, from rewarding managers for maximising shareholder value to focusing on cash generation, had become standard business practice. Even ICI applied the Hanson treatment to itself, once the bid was dead, by first hiving off its pharmaceutical division and later shedding all its heavy chemicals.

None of this means there are no longer plenty of badly-run firms or underutilised assets. But today the task of reviving them has fallen to different creatures. Large shareholders are playing a bigger role in resolving problems at companies. And if they fail, there is a well-capitalised private equity industry, led by the likes of KKR, Apax and the Carlyle Group, ready to rush in to spruce up underperforming companies before selling them on. If Lord Hanson were starting out today, perhaps private equity is where he would be found. But perhaps not—for there is growing talk among the bosses of the big private-equity firms that they should become public companies, listed on the stockmarket like Hanson Trust. If so, the Hanson way may be less something for the history books than the shape of things to come.

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Family businesses

Passing on the crown

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More family firms are facing up to their biggest problem: avoiding a crisis as the business passes from one generation to the next

MOST of the world's best-known companies at some point listed their shares on stockmarkets, thus opening their ownership beyond the ranks of the families that founded them. Yet even among so-called “public” companies, many remain controlled, or at least to some extent influenced, by the very same families. Indeed, the majority of businesses are family-controlled, from unsung millions of modest firms to commercial giants such as Wal-Mart, Ford, Samsung or Hyundai. One study in the mid-1990s reckoned that more than 90% of all enterprises in America were family-owned. At Coca-Cola, the views of the Woodruff family still count; at Nordstrom, a giant retailer, the family still controls 30% of the shares. Despite a painful sequence of deaths among its patriarchs, few people think the Agnelli family intends to give up its influence over Fiat.

In fact, depending on how you define “influence”, families have some sway in between 35% and 45% of America's 500 largest companies. In other parts of the world, the proportion is higher still. Even in Britain, which lacks an overtly strong family-business culture, about two-thirds of all companies, public and private, describe themselves as family-owned.

Today, more family firms may well be changing hands than ever before. Work by Joe Astrachan of the Cox Family Enterprise Centre at Kennesaw State University in Georgia suggests that a wave of new family firms were created in the 15 years or so after the second world war. As a result, the shift to second-generation ownership of these firms has been growing steadily in recent years and will soon hit a peak. In Australia, for example, one in five proprietors is aged 65 or more, and more than one in ten is over 70. According to the Family Firm Institute, a specialist consultancy, almost 40% of America's family-owned businesses will have changed their leadership (ie, a generational change or the arrival of professional managers) between 2003 and 2008.

Family firms combine all the tensions of family life with all the strains of business life, and at no moment do both sorts of stress combine so forcefully as at that of generational change. Even with a desire to keep the business family-owned, it may be hard to do so. For instance, a survey of 47 family firms, all of them second-generation or beyond, commissioned by J.P. Morgan Private Bank for a conference of the Institute for Family Business in London earlier this year, found that an impressive 52% expected to be family-owned and -managed in a generation's time; and a further 26% expected that the next generation would be owners but not managers. Only 7% expected that the company would have no family involvement; and the remaining 15% were uncertain.

But in reality, very large numbers fail to make the leap. Only a third of businesses successfully make the transition from each generation to the next, says Mr Astrachan—"and that figure has been very stable, and is true around the globe." The majority are either sold or wound up after the founder's death. Some studies suggest that only 5% of family firms are still creating shareholder value beyond the third generation.

One striking illustration of this is the tiny membership of Les Hénokiens, a club named after the long-lived Enoch in the Bible for businesses that have been in the same family for 200 years or more. Only 32 companies, more than one-third of them Italian, have signed up. One common feature is that over time the number of family members with an interest in the company has swollen, often reaching hundreds—so there is plenty of scope for squabbling. Yet the survivors have managed to avoid arguments, often because a protocol has been agreed that governs how the family and the business interact, including when and to whom shares can be sold.

Why do family firms so often fail to make the generational leap? And are there recipes for greater durability? Undoubtedly, family businesses are more complex and difficult to manage than the tiny minority of non-family firms whose governance is the main subject of most management research. Family firms are frequently more riven with intrigue and visceral hatreds than a medieval court—and for similar reasons. Substitute the founder for a medieval monarch and the professional managers for courtiers, add in a pair of rivalrous heirs with jealous wives and scheming cousins, and you have the perfect recipe for a Shakespearean drama.

It should be no surprise, then, that some 70% of those attending the annual meeting of the Family Firm Institute in Boston in early October were family therapists. The army of consultants that has sprung up to help family firms resolve differences has its roots deeply sunk in psychoanalysis. Succession is the moment that most often calls for their services.

Business as dynasty

World's largest family-owned firms, by revenues

Firm	% owned or controlled by family*
Wal-Mart	Walton family owns about 38%
Ford Motor	40% of voting shares
Samsung	Lee family controls about 22%
LG Group	Koo and Huh families own about 59%
Carrefour Group	Families control 29% of voting shares
Fiat Group	Agnelli family owns about 30%
IFI	Agnelli family owns 100%
PSA Peugeot Citroën	Family holds 42% of voting shares
Cargill	Family owns about 85%
BMW	Quandt family controls 47% of shares

Sources: *Family Business; The Economist* *Approximate

Succession and success

The vast majority of family businesses consist of a single founder-owner or founder-couple, sometimes employing relatives who come into the business to help or to find a job. A study by four family-business gurus, published seven years ago ("Generation to Generation"), reckoned that about three-quarters of family firms in America took this form. A further 20% are sibling partnerships; and 5% are "cousin consortia". "Succession is the ultimate test of a family business," say the authors. "Once the business has been transformed from an individual venture into a family enterprise, its continuity becomes a unifying concern." The very task of keeping the family firm in existence may thus sometimes provide the glue that holds quarrelsome relatives together.

Succession in a family business is not an event but a process. Rarely does the patriarch sit with his lawyer for a morning and hand over the family company at the stroke of a pen. Instead, there is typically a two-stage process. It involves the transfer of both management and ownership. "Succession is not complete until both management authority and ownership rights pass on," says John Davis of Harvard Business School. "But they tend not to pass at the same time." The older generation may hang on to ownership until death—or even beyond, in a sense, if ownership is vested in family trusts.

Parents may willingly hand over the burden of management to the next generation, long before they give up the privilege of control. Passing on the key right to vote shares involves "transfers of power, of status and even of identity," says John Ward, who teaches family-business management at two business schools, one on each side of the Atlantic: Kellogg in the United States and IMD in Lausanne. No wonder psychoanalysts so often get involved.

Of course, the second and subsequent generations have a choice. Keeping the family in the business may mean continuing both to manage and to own it—or the family may own the business but play no part in its management. Families in northern Europe seem especially willing to contemplate the second option, says Mr Ward. More than in other parts of the world, Europeans are willing to put professionals in to

manage the family firm. Moreover, Mr Ward reckons, more families are now willing to accept the split, as a way to keep the family involved but distance it from the day-to-day operations.

But where succession replaces a single founder-owner with a band of brothers or consortium of cousins, new problems arise. Ivan Lansberg of Lansberg, Gersick, a consultancy that specialises in family businesses, recalls that much of his company's business five or ten years ago was about persuading the patriarch to let go. Now, it often entails talking to the second generation, baby-boomers who spend a lot of time managing relations with siblings or cousins who are in management or are shareholders. “It's very different from being a lone entrepreneur,” he points out.

The second-generation relatives who run the business may not be as united or as driven as the founder. The cousins who are shareholders may want to get their money out, or may have less faith in the new management than they did in the original owner. And the second generation may enjoy less authority with the rest of the family than the individual who originally created the business.

Corporate succession is always a tricky moment. Many bosses dawdle on the way to the exit. In “The Hero's Farewell”, Jeffrey Sonnenfeld of Yale University found that chief executives were significantly less willing to contemplate stepping down than were other senior executives. And, even after retirement, they hung around: 57% of them retained an office at the firm for at least two years (compared with 23% of senior managers).

With corporate founders, reluctance to hand over the reins may be even greater. Founders generally long for their descendants to continue the family firm: a survey by Arthur Andersen in the late 1990s found that 81% of older owners wanted the business to stay in the family, although 20% were not confident of the next generation's commitment to their business. But many make it hard for the children to do so: the Andersen survey found that 25% of older shareholders in family businesses have done no estate planning apart from writing a will. Often that leaves heirs at the mercy of inheritance taxes that can force the sale of the business.

Sometimes, the founder faces a real dilemma: his daughter or nephew may be more astute than the oldest son whom he sees as a natural successor; he may want the shares to pass to one child, in order to retain control in a single set of hands, rather than dividing his inheritance equally among his children; he may trust his children but mistrust their spouses. At such points, the emotions of a parent can interact disastrously with requirements of a secure transition.

Yet delay in establishing who inherits the business may discourage the most talented of the next generation from investing time in it. Tony Bogod, chief executive of the BDO Centre for Family Business in Britain, recalls a father of 68 who would not hand over ownership of the business to his son, who had spent 15 years in the business and had run it for some time. “But you said, some day all this would be yours!” protested the son. “Yes,” said his father, “but I didn't say you wouldn't have to pay for it.” The son had to raise £21m ($38m) to buy the family firm.

Move over, old chap

Being beastly to the heir has a long history. The first Henry Ford bullied his son Edsel for years. Thomas Watson senior, the founder of IBM, refused to pass on the reins until he was 82. Serge Dassault, of Dassault Enterprises, was 61 years old before his father gave him the chairmanship of the family aircraft business. In Britain, a television series fronted by Gerry Robinson, a former chief executive, has won viewers by repeatedly exposing the painful tensions that a lingering founder can cause within a family business.

Delays can be disastrous, says Mr Ward. “If a succession isn't done by the time the boss is 65, it becomes very difficult,” he says. “Once they get to 70-75, it can be hard to let go.”

If the old do not go, the young may not stay. Instead, they may leave and set up a rival business of their own. It may take the shadow of the Grim Reaper to get things moving: “Nothing helps unblock a stalemate about succession as effectively as a mild coronary,” says Manfred Kets de Vries, author of a book on succession.

But, even if the owners are willing to pass control to their children, the children may have other plans. A survey of the children of owner-managers of British family businesses, by Sue Birley, formerly of London's Tanaka Business School, found that the most commonly cited reasons for not joining the family

firm were a lack of interest in a business career; a feeling that “the business would not allow me to use my talents”; and a lack of interest in the particular business. An even clearer explanation seems to be gender. Of the children surveyed, 75% of sons worked in the business, compared with only 35% of daughters; and daughters accounted for 77% of those whose main reason for not joining was a lack of interest in a business career.

Those missing daughters may make a difference. Some family-firm advisers think that transition of a family business from father to daughter is easier than from father to son—especially to the first-born son, viewed by most specialists as the most difficult succession of all. Perhaps if more women went into the family business, more might make the transition.

Scions also need training and support. Alex Scott, who runs Sand Aire, a fourth-generation family business, found being in the family firm in Britain was lonely: “People here are less comfortable with being associated with the family business than they are elsewhere.” He was much comforted by a visit to the Family Business Network, based in Lausanne, where he met for the first time hundreds of other people in the same boat. He set up the Institute for Family Business in Britain, specifically aiming to help heirs entering a family business to learn the job.

Love, power and money

How can family companies improve their chances of survival? Several studies of firms that have passed successfully down many generations suggest that there are ways to raise the chances of longevity. Mr Davis is writing a book on seven families whose businesses have been notably long-lived; and Heinz-Peter Elstrodt of McKinsey looked at 11 such family businesses in an article in the *McKinsey Quarterly,* the consultancy's house journal, last year. Mr Elstrodt found a clear need for professional management and for a continuing family commitment to owning the business. Some research suggests that firms that switch early to professional management find it easier to survive than firms that wait. Michael Lubatkin of University of Connecticut's business school found that firms surviving to the third generation and beyond were those that had put in place at an early stage formal rules to ensure effective family governance.*

Families whose businesses survive seem to operate on a set of agreed principles that pass from one generation to the next, written or unwritten. These, says Mr Astrachan, should ideally include the creation of a board of directors that must meet at least three times a year; a process of strategic planning that allows everyone to debate and agree upon the broad direction the company is taking; and family meetings, ideally two to four a year, that include as many of the owners as possible.

Increasingly, consultants try to persuade the families that own younger businesses to think through and draw up rules of their own. This is hardly a new idea: it was pioneered by Bonnier, a Swedish media and publishing group, in the 1950s. But it provides a chance for families to talk through issues and head them off before they become problems.

One of the key decisions when the family retreats mainly to an ownership role is how to constitute the board. Many family businesses have none. Survivors, the McKinsey study found, tend to have strong boards, and usually one that includes a significant proportion of outside directors.

A second vital decision is the circumstances in which family members can join the company. Survivor family businesses often exclude family members entirely, or insist that they work successfully elsewhere before they apply and face an evaluation as rigorous as any outsider before being taken on.

A third key decision is to build an appropriate strategy. Because family-owned businesses have a more restricted access to capital than publicly quoted firms, they tend to concentrate in businesses that require relatively few assets, such as trading, consumer goods and retailing. There are exceptions: Vittorio Merloni has built his company into one of Europe's biggest manufacturers of white goods. And family firms are often more diversified than quoted companies—they are, after all, by far the family's main asset, and so the firm's own diversification makes family owners feel more secure. Shareholders in quoted companies have more scope to diversify their own portfolios by buying shares in other firms.

If those three decisions—the make-up of the board, the terms on which family members can join the firm and the creation of a strategy—are well made, then family businesses stand a good chance of surviving. But there is one further essential—the family must want to continue. With each generation, the gap between management and ownership widens, as does the gap between the company and shareholders. Mr Bogod thinks that selling the family firm is becoming more acceptable and more common.

So the final essential for successful long-term survival is to keep the family involved, and willing to carry on as owners from one generation to the next. Keeping owners on board can entail wielding sticks as well as dangling carrots. If it is difficult to sell the shares in a family business at their true market value, then family owners have a stronger incentive to sit tight.

Many founders who are now bequeathing their businesses to the next generation may find that their children are unwilling to carry the responsibility. Inherited jobs are out of fashion. But, at its best, a family business can take a long-term view, behave with occasional altruism, and care about product quality in a way that quoted companies often find difficult. Society, as well as the economy, would be poorer without them.

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* “A Behavioral Economic Framing of Agency Problems at Family Firms” by Michael Lubatkin, William Schulze, Yan Ling and Richard Dino, forthcoming in the *Journal of Organizational Behavior*.

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China's banks

Root and branch

Nov 4th 2004 | BEIJING, HONG KONG AND SHANGHAI
From The Economist print edition

AP

China is serious about sprucing up its sickly banks. The battle for modernisation will be won or lost in the local branches

Get article background

AN ODD hush hangs over the soaring glass and steel headquarters of the Bank of China (BoC) in Beijing. The silence is deceptive. Although the lobby is empty, the meeting rooms are overflowing and the faces inside those rooms are drawn. China's second-largest bank is in turmoil.

But it is in turmoil out of choice. China's banks have been mere conduits for pouring money into local governments and state-owned companies, with little regard for risk or profit. That must change, say the country's political leaders, bank regulators and bankers. A sign that more heed must be paid to the market came on October 28th. That day the central bank raised interest rates for the first time in nine years. But it did more. It also lifted the ceiling on commercial loan rates, allowing banks to charge more to riskier borrowers.

By the end of the year, explains Zhu Min, head of restructuring and listing at BoC, more than 2,000 people at BoC's head office must reapply for their jobs. Eventually all 230,000 employees at over 11,000 branches will follow. Only a handful will be fired, but the point, says Mr Zhu, is really to change the way the bank lends, “and that means changing its culture”.

It matters a lot whether Mr Zhu, a former World Bank official, succeeds. Because China's capital markets are underdeveloped, the domestic economy depends on bank loans: bank assets comprise 77% of all financial assets compared with 26% in America. But the banks, almost all state-controlled, are broken. “Breakneck growth in deposits and loans, inattention to asset quality and the build-up of non-performing loans have led to the insolvency of virtually the entire banking system,” says Stephen Harner, a consultant and a director of Hangzhou City Bank. By end-2003, outstanding loans had surged to 145% of GDP, the highest such ratio in the world. Bad debts to banks at 40% of GDP are a threat to fiscal stability.

Most Chinese bankers, particularly in local branches, cannot tell a good loan from a bad one. There has been no need to, because local managers' pay has depended on asset growth and the only regulatory constraint has been a maximum loan-to-deposit ratio of 75%. Lending lots and attracting deposits

quickly have been all that counted: risk, return and capital adequacy have meant nothing.

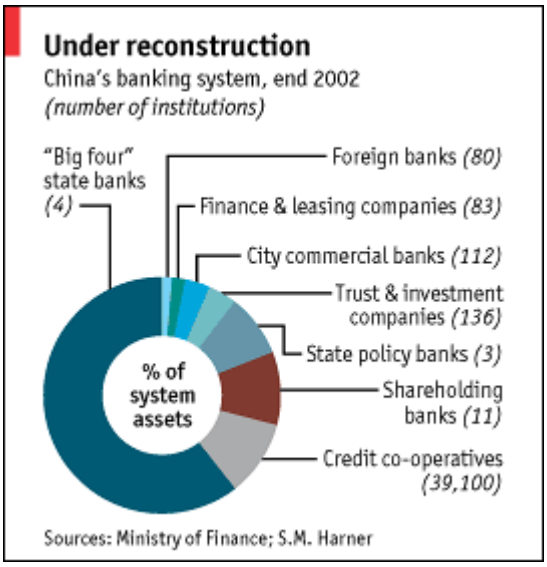
As the economy grew explosively, this fostered corruption. City officials routinely co-opted local bank managers into financing new roads and the like. State-companies' bosses, under political pressure to create jobs, secured easy money to chase new markets. Who cared about repaying loans? David Marshall of Fitch, a credit-rating agency, estimates that local governments have illegally underwritten $100 billion in loans to bankroll favoured investment projects.

This is not lost on the China Banking Regulatory Commission (CBRC), formed last year to take over as regulator from the central bank. Its much admired head, Liu Mingkang, a former boss of BoC, rightly regards capital adequacy as critical. From 2007, all commercial banks must have capital of 8% of risk-weighted assets, an international benchmark. The CBRC is also raising risk weightings for some loans, particularly to state firms, and says that banks must make bigger, earlier provisions against bad debts. Banks that fail to comply could in theory be closed.

The banks are responding. BoC, which with China Construction Bank (CCB) is one of the two of the “big four” state banks earmarked for early restructuring and share offerings abroad, has set up credit-review and management committees, hired foreign auditors and slimmed its board from a gargantuan 69 to a svelte dozen. Mr Zhu says that half of the salaries of general managers, who used to be paid identically, are now decided by financial targets. As a result, he says, lending growth has slowed.

Mr Harner calls the new emphasis on capital “revolutionary”. Not everyone is as impressed. Eswar Prasad, head of the IMF's China division, believes that the CBRC lacks the resources to police reforms. Mr Marshall argues that a capital-adequacy ratio of 8% is too low for risky emerging markets. And he wonders how sharp the CBRC's teeth really are: “Could it really oppose the government and shut a bank if it meant job losses?”

Enforcing the new policies in thousands of remote branches is a monumental task. Some branches lack computers and still keep their books by hand. Local managers decide the prospects of “independent” credit-approval staff and auditors sent from head office. Corruption is rife. By the end of the year, Mr Zhu says, BoC will have “tried and penalised” 50,000 staff for fraud. Nor, frequently, is respect for numbers any better at the top of the system. Banks often keep several sets of books, so they can present the most convenient figures. Recently a senior regulator advised one foreign investor to disguise a bank's appalling capital-adequacy ratios in order to ease his takeover of it.



Because centralising loan approval is fundamental to bank reform, Mr Zhu is removing power from the county and district branches where most bad debts originate. BoC now claims that its bad-debt ratio is only 5.2%. Even if this is right, it may have more to do with rapid loan growth and a recapitalisation by the government than with improved decision-making. Across the system, the lending boom of the past three years may have already set up the next wave of bad loans, to emerge as the economy slows down.

Simply, the banks still lack the skills to run profit-minded businesses. The favoured solution among Beijing politicians and bankers is to co-opt foreign money and know-how, but without giving up control of the banks. BoC has sent scores of executives overseas to learn how real banks work. It is inviting prominent foreigners on to its board, such as Peter Cooke, formerly of the Bank of England; it is also wooing Joseph Stiglitz, a Nobel economics laureate, and Paul Volcker, former chairman of America's Federal Reserve.

Smaller lenders are attracting foreign capital. HSBC paid $1.7 billion recently for a 19.9% stake in Bank of Communications (BoCom), China's fifth-largest lender. Citigroup has bought 4.6% of Shanghai Pudong Development Bank. Newbridge Capital, an American private-equity firm, has 18% of Shenzhen Development Bank.

However, the big boys seeking overseas listings, BoC and CCB, have not yet attracted foreign strategic investors, despite clean bills of health from international auditing firms and a $45 billion government bail-

out early this year which pushed their capital ratios above 8%. Mr Zhu admits doubts over asset quality are putting foreign banks off paying a likely $1 billion-2 billion for a 5-10% stake, which might bring a seat on the board but no real control.

A strong foreign influence could be a boon. Newbridge gained board control of the Shenzhen bank only because its shareholder base was unusually fragmented. But the Chinese bank may now be able to centralise its risk management and to shift to safer retail banking and mortgages. BoCom's tie-up with HSBC should help it introduce more sophisticated products from credit cards to insurance policies.

At the big four, several big international banks are possible buyers of small stakes. Citigroup, advising CCB on its flotation, may take a 5-6% stake in its client. BoC's Mr Zhu says he will be able to name investors soon. But no purchases are likely to be big enough to affect the banks' strategies.

Without the reassurance of strategic foreign investors, international institutions may be wary of next year's planned $5 billion-10 billion flotations of CCB and BoC. That would mean less capital to finance reforms and to cover any fresh bad loans. It could also thwart a listing of Industrial & Commercial Bank of China, another of the big four, which is in line for a $40 billion state handout soon. Time is running out. The banks are not ready for a listing, yet need capital fast. Meanwhile, reform is hastily being grafted on to a vast, still-primitive industry. A failed banking reform is the last thing China needs.

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Japan's economy

Death of deflation?

Nov 4th 2004 | TOKYO
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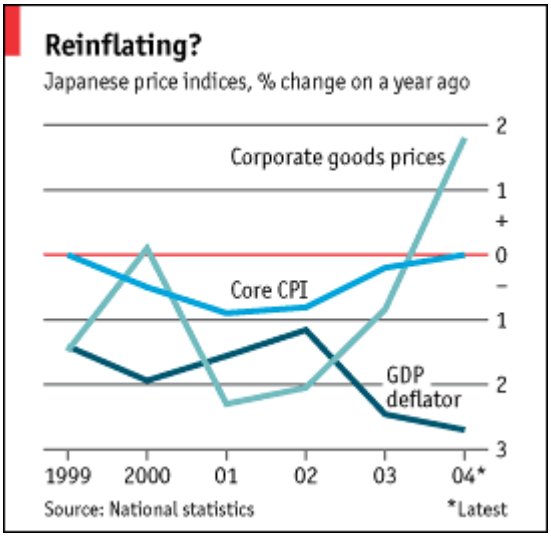
Central bankers in Japan think that 2005 could mark a turning point



THE figure is small, but may prove to be of great significance. On October 29th, in a semi-annual review of Japan's economy, the Bank of Japan's policy board announced that it expects—wait for it—inflation next year. The central bankers' median forecast for the consumer-price index, excluding volatile fresh-food prices, for the year beginning on April 1st 2005 is 0.1%. The thought of rising prices, after years of consumer-price deflation, prompts questions about when the central bank might eventually increase interest rates above zero, or at least scale back its unusual methods of loosening monetary policy. More immediately, though, it might herald a further stage in the revival of Japan's economy.

The economy has already been growing nicely for a couple of years, led by strong exports, especially to China. Japan's GDP, after adjusting for deflation, grew by 2.4% in 2003, and should expand by more than 4% this year. The Bank of Japan expects further healthy growth in 2005.

Of course, risks remain—not least that China's booming demand for everything from digital electronic components to steel will wane as Chinese officials attempt to cool their economy. Yet the end of deflation, if it comes to pass, could signal other encouraging trends in Japan's domestic economy. For instance, an increase in property prices, after more than a decade of decline, could do wonders for consumer confidence. Rising prices might embolden companies to borrow again, and banks to extend credit, ending the decline, now nearly seven years long, in bank lending, which fell by 3.1% in the year to September. It is hard to know whether these other indicators will turn the corner before or after consumer prices start rising. However, they should all reinforce each other. A lack of consumer and business confidence has continuously sapped the economy, and its deadening effect should fade.

How long might that take? Japan's main price indicators are still sending conflicting signals (see chart). One, the GDP deflator, is still pointing downwards: in the second quarter it was 2.7% lower than a year earlier. But most economists think this measure is badly flawed, since it accounts poorly for changes in the make-up of Japanese output, and has not been adjusted for this since 1995. Another index, charting wholesale goods prices, is already rising—by 1.8%, no less, in the year to September. This seems to indicate that the gap between aggregate supply and demand is closing. But wholesale prices are strongly influenced by the prices of oil and other commodities, which have gone up fast. Wholesale inflation will mean little unless it is translated into rising output prices.

Still, the central bankers hope that consumer prices will begin rising slightly next year. Later, interest rates might start rising too—but the Bank of Japan is in no hurry. Toshihiko Fukui, its governor, has said that the central bank will not end its zero-interest-rate policy until inflation has been in positive territory for a while and looks likely to stay there. Based on their current outlook, Japan's central bankers expect a good year in 2005, but not good enough to take their foot off the accelerator.

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India's foreign-exchange reserves

Promises to keep

Nov 4th 2004 | DELHI
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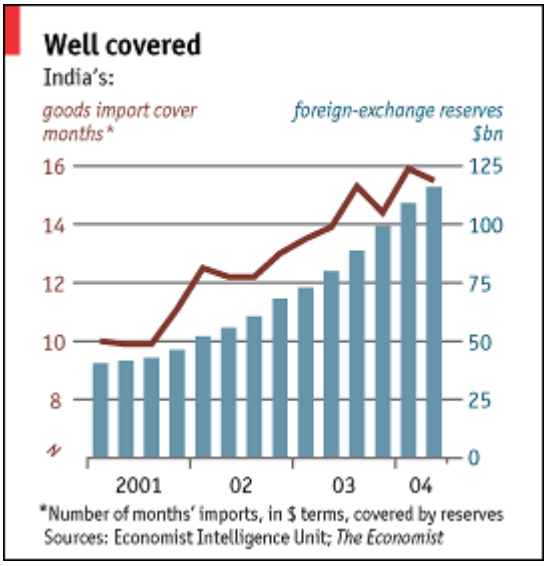
When a policy sounds too good to be true, it probably is



IN ANY list of the obstacles to faster economic growth in India, lousy infrastructure features close to the top. Roads are pot-holed, ports are congested and the railway network creaks; power cuts are a way of life; less than one-third of cropland is irrigated. India's new government, like its predecessors, has promised improvements. But, if both state and central governments are counted, the country's fiscal deficit hovers around 10% of GDP. Increasing it would be difficult. Spending—committed to civil-service wages, defence and, above all, interest payments—is hard to cut. So where is the money to come from?

Montek Singh Ahluwalia, deputy chairman of India's Planning Commission, has an answer: the country's foreign-exchange reserves, held by the central bank, the Reserve Bank. These have grown by $27 billion in the past year, to $116 billion, the equivalent of nearly 16 months' imports (see chart). Many economists agree that is more than is needed, incurring an unnecessary opportunity cost.

Mr Ahluwalia suggests that $5 billion a year for the next two to three years be spent trying to cut "India's incredible infrastructure deficit". The idea has obvious attractions. As Rajiv Kumar, chief economist of the Confederation of Indian Industry, a lobby group, points out, gas turbines are a better use of India's dollars than American Treasury bonds.

Many economists are torn. They have huge respect for Mr Ahluwalia and his boss, the prime minister, Manmohan Singh—economists both—as professional colleagues, but have been baffled by what exactly they are proposing and are struggling against an instinctive conviction that the idea is crazy.

Mr Ahluwalia says there is nothing "shady or non-transparent" about the scheme. It will explicitly increase the government's deficit. To mitigate the risk that this might raise interest rates and crowd out other investment, this portion of the deficit would be earmarked for what Mr Ahluwalia calls "well-identified monitorable infrastructure projects with a high economic return".

This would require persuading parliament to overlook the targets imposed by a fiscal-responsibility bill passed only last year and already pushed back by one year. Parliament is unlikely to object to a measure that promises higher spending. But financial markets might be disconcerted. They might also worry that an increase in the deficit financed, in effect, by an increase in the money supply will lead to higher inflation, which is already a concern. Mr Ahluwalia wants to counter this by allowing the rupee to strengthen or—his preference—by cutting import duties. Imports would become cheaper and help keep prices down.

Even if efforts are made to maximise the imported content, the foreign-exchange requirements of many infrastructure projects—roads, say—are a small part of the total cost. To use the reserves, the plan relies on encouraging, somehow, a more general increase in private-sector imports. Critics say the same could be achieved directly by cutting duties (as Mr Ahluwalia, to his credit, would like to do) and by persuading the Reserve Bank to sell back to the market some of the dollars it has bought in order to stem the strengthening of the rupee.

AFP

But who's going to fix the hole in the budget?

That would also take the decision on how to spend the money away from the government. The Indian economy—once planned along socialist lines—has performed much better in the past 13 years since the state has allowed the market a bigger role in the economy. But Mr Ahluwalia points out that private investment in infrastructure is not going to pour in without a lead from government spending, whether from its tax revenues, borrowing or elsewhere.

A final worry is whether the reserves are as healthy as they look. In a report produced this week, Dominique Dwor-Frécaut, of Barclays Capital, an investment bank, argued that India's may be more vulnerable to sudden shifts of investor sentiment than are those of, say, China. Much of the increase in reserves comes from portfolio inflows, and only one-fifth, she calculates, from stable flows such as foreign direct investment.

For a government in a political bind, the foreign-exchange reserves are a tempting pot of gold. But, however elegantly schemes to spend them are presented, many economists will continue to see them as a distraction from the real issue. As one puts it: “The government should raise taxes and spend it.” Spoil-sport.

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Oil futures

Crude awakening

Nov 4th 2004
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A battle between two energy exchanges

Reuters

Looking for lots of black stuff

OPEN-OUTCRY trading is supposed to be a quaint, outdated practice, rapidly being replaced by sleeker, cheaper electronic systems. Try telling that to the New York Mercantile Exchange (NYMEX), the world's largest commodities exchange. On November 1st the NYMEX opened an open-outcry pit in Dublin to handle Brent crude futures, the benchmark contract for pricing two-thirds of the world's oil.

The NYMEX is trying to snatch liquidity from London's International Petroleum Exchange (IPE), which trades the most Brent contracts; the New York exchange has hitherto concentrated on West Texas Intermediate, an American benchmark grade. The new pit is a response to the IPE's efforts to modernise. On the same day as NYMEX traders started shouting Brent prices in Dublin, the IPE did away with its morning open-outcry session: now such trades must be electronic, or done in the pit after lunch.

The New York exchange claims that customers, such as hedge funds or energy companies, prefer open-outcry because it allows for more liquidity. Although most other exchanges are heading in the opposite direction, in commodity markets such as the NYMEX, pressure from “locals”—self-employed traders—is helping to prop up open-outcry, although some reckon that customers pay up to five times as much as with electronic systems. Even the IPE has no plans to abolish its floor. Only last month it signed a lease, lasting until 2011, for its trading floor in London.

Dublin's new pit is “showing promise”, says Rob Laughlin, a trader with Man Financial, despite a few technical glitches. On its first day it handled 5,726 lots of Brent (each lot, or contract, is 1,000 barrels), over a third of the volume in the IPE's new morning electronic session. By the year's end, predicts Mr Laughlin, it should be clear whether the venture will be viable. It would stand a better chance if it moved to London. It may yet: it started in Ireland because regulatory approval could be obtained faster there than in Britain.

Ultimately, having both exchanges offering similar contracts will be unsustainable. Stealing liquidity from an established market leader, as the NYMEX is trying to do, is a hard task. Eurex, Europe's largest futures exchange, set up shop in Chicago this year, intending to grab American Treasury-bond contracts from the Chicago Board of Trade. It has made little headway. And the NYMEX has dabbled in Brent contracts before, without success.

Given the importance of liquidity in exchanges, why do the IPE and the NYMEX not band together? There have been merger talks before, and something might yet happen. Some say that the freewheeling NYMEX and the more staid IPE could never mix. For now, in any case, the two exchanges will slug it out—across the Irish Sea as well as across the Atlantic.

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Junk bonds

Aptly named

Nov 4th 2004
From The Economist print edition

The world's worst investment?

THERE are, possibly, worse investments but, Nigerian scams aside, it is hard to think of a surer way to lose money than buying lowly-rated bonds issued by American companies at their present niggardly yields. In March, Warren Buffett dismissed the junk-bond market as weeds priced as flowers. Today, they are priced more like exotic orchids—or, dare one say it, Dutch tulip bulbs in the 17th century.

While many other markets wobbled in October, prices of junk bonds soared. Spreads over Treasury bonds fell by 40 bps (basis points, or hundredths of a percentage point) in the last week of the month alone. So far this year, high-yield bonds have returned more than 8%. And the weediest credits have turned in the strongest performance: those with a CCC rating, (almost the lowest awarded to companies that are not in default) have soared.

To be sure, there have been good reasons for prices of riskier corporate bonds to climb compared with those of Treasuries. Bumper profits have gone some way to restoring balance sheets. The proportion of companies with a “speculative grade” (junk) rating by Standard & Poor's, a big rating agency, that are defaulting has fallen from a peak of 10.5% in March 2002 to 2.3% last month, the lowest since 1998. And although S&P is still downgrading more companies than it is upgrading, the gap is shrinking. But the biggest—and most worrying—reason for the rapid rise in prices has been a hunger for anything with a sniff of yield and damn the risks.

These have been rising in part because the appetite for yield has encouraged many lowly-rated issuers to come to market. As S&P points out, when issuance by companies rated B- or lower accounts for more than 30% of the total issuance of all junk bonds (defined as those with a rating lower than BBB-) for a sustained period, this serves as a warning of a pick-up in defaults two years or so down the road. And the share of issuance by companies with a rating of B- or lower has exceeded 40% in the first three quarters of this year. Some 12% of these firms carried a CCC rating.

Such companies are very likely to default. Over the long term, a bit more than 13% of issuers rated B- will default within a year; for those with a CCC rating the figure is just over 30%. Within five years, the numbers rise to 39% and 53% respectively. So far this year, 85% of junk issues have had maturities of seven years or longer.

For such bonds, investors have been requiring ever-lower yields. The spread of bonds rated B, for example, has collapsed from 500 bps a year ago, to 375 bps. “We're really at a point now where the risks are outweighing the rewards,” says Diane Vazza, of S&P's fixed-income research department, with some understatement.

For dodgy credits, in any case, spreads are a poor guide to value, especially when yields are low. This is because investors should be looking not at relative value, but for the same high absolute returns that they would require of similarly risky equities. Alas, they are likely to find this out, as they have in the past, the hard way.

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Economics focus

A productivity primer

Nov 4th 2004
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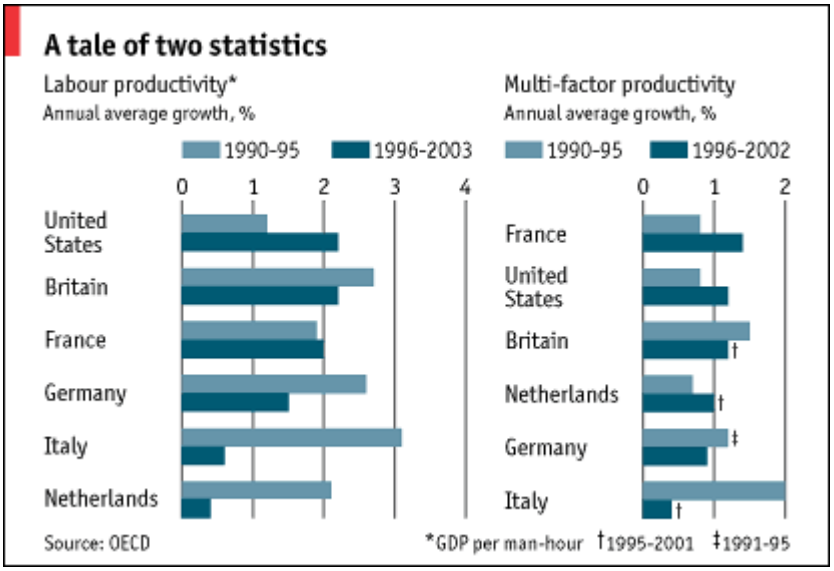
The most common way to measure economic efficiency is not the best



PRODUCTIVITY growth is probably the single most important indicator of an economy's health: it drives real incomes, inflation, interest rates, profits and share prices. Investors' belief that America's "productivity miracle" will continue helps to underpin higher share-price valuations there than in Europe and to support the financing of the country's huge current-account deficit. European economies, in contrast, are thought to be much less productive, thanks to their rigid labour markets (see article).

Economic commentators toss around the term "productivity growth" as if there were one widely agreed definition. There isn't. America's favourite measure is output per man-hour in the non-farm business sector. Since 1996, this has increased at an annual average rate of 3%, double the pace of the first half of the 1990s. Growth in GDP per man-hour across the whole economy has been more modest: 2.2% a year on average since 1996, roughly the same pace as in France and Britain but faster than in Germany and Italy. Still, it remains true that the growth in GDP per man-hour quickened in America after 1996, while it slowed in most European economies.

Yet all this reflects only labour productivity. A better measure is multi-factor productivity (also called total factor productivity) which tries to capture the efficiency with which inputs of capital as well as labour are used. If workers are given better machines and equipment, this will automatically boost output per man-hour, even if there is no gain in overall economic efficiency once the extra capital spending is taken into account. David Owen, an economist at Dresdner Kleinwort Wasserstein, argues that investors should look at multi-factor productivity instead of labour productivity, because it is a better proxy for an economy's return on capital. If faster labour productivity growth is entirely the result of heavy capital spending by companies, it may not deliver good financial returns.

The snag is that multi-factor productivity is a lot harder to measure. It is much easier to add up the number of hours being worked than to value the capital stock. The best comparable figures are published by the OECD. By this gauge America's productivity gains in recent years look somewhat less miraculous: average annual growth in multi-factor productivity has increased only to 1.2% since 1996, from an average of 0.8% in the first half of the 1990s. Indeed, multi-factor productivity growth has been faster in France since 1996, at 1.4% a year (see chart). Britain's growth has been identical to America's. Even

Germany's (0.9%) has not lagged by much. America's gains in multi-factor productivity are less impressive than those in labour productivity in large part because of “capital deepening”—increases in the amount of capital, in particular IT equipment, per worker. This has accounted for a large chunk of its labour productivity growth in recent years.

One virtue of multi-factor productivity over labour productivity is that comparisons between countries may be less distorted by national differences in the way real output is measured. For example, many economists suspect that the growth in America's GDP, and hence its labour productivity, is overstated relative to Europe's because American statisticians make a much bigger adjustment for improvements in the quality of goods, notably computers. In addition, American statisticians count firms' spending on software as investment, but in much of Europe it counts as a business expense, and so is excluded from final output. Thus the surge in software spending since the mid-1990s inflated America's GDP growth relative to elsewhere. But because American statistics overstate the growth in capital spending as an input as well as an output, comparisons of multi-factor productivity growth are likely to be less distorted than those of labour productivity.

The big part played by capital deepening in America's faster labour productivity growth raises questions about its sustainability. The growth rate for labour productivity fell in the second quarter, and data due on November 4th (after *The Economist* had gone to press) were expected to show a further slackening. A slowdown at this stage of the economic cycle is normal, but Bill Dudley, an economist at Goldman Sachs, worries that the boost to productivity from IT may be weakening. The rate of decline in the prices of IT equipment has slowed, suggesting that productivity growth in the IT sector has fallen. In addition, after surging in the late 1990s, capital spending has weakened, implying lower labour productivity growth in future.

Meeting half-way

America's growth in labour productivity is thus likely to slow, even though it should remain faster than in the decade before 1996. In contrast, there is a good chance that Europe could deliver some pleasant surprises, with faster growth in labour productivity as current structural reforms—led as much by companies' response to international competition as by governments—bear fruit. For example, some big German firms have won agreement from unions to work longer hours to reduce costs.

Olivier Blanchard, an economist at the Massachusetts Institute of Technology, points to several industry-level studies which show that European labour productivity growth has already picked up. Labour productivity in the French car industry rose from 55% of American levels in 1990 to 75% in 2000, thanks to increased competition and better management. The equivalent figure for road freight increased from 61% to 85%.

So why do economy-wide statistics suggest a productivity slowdown in much of Europe? Part of the answer is that job reforms, such as lower payroll taxes, have cut the cost of labour relative to that of capital. This has encouraged companies to hire previously unemployed low-skilled workers, which in turn tends to pull down measured productivity growth. Yet such policies should be welcomed if they boost the productivity of capital and reduce unemployment. All the more reason to track multi-factor productivity rather than labour productivity.

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The Iraqi war

Counting the casualties

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AP

A statistically based study claims that many more Iraqis have died in the conflict than previous estimates indicated

THE American armed forces have long stated that they do not keep track of how many people have been killed in the current conflict in Iraq and, furthermore, that determining such a number is impossible. Not everybody agrees. Adding up the number of civilians reported killed in confirmed press accounts yields a figure of around 15,000. But even that is likely to be an underestimate, for not every death gets reported. The question is, how much of an underestimate?

A study published on October 29th in the *Lancet*, a British medical journal, suggests the death toll is quite a lot higher than the newspaper reports suggest. The centre of its estimated range of death tolls—the most probable number according to the data collected and the statistics used—is almost 100,000. And even though the limits of that range are very wide, from 8,000 to 194,000, the study concludes with 90% certainty that more than 40,000 Iraqis have died.

Numbers, numbers, numbers

This is an extraordinary claim, and so requires extraordinary evidence. Is the methodology used by Les Roberts of the Johns Hopkins University School of Public Health, in Baltimore, and his colleagues, sound enough for reliable conclusions to be drawn from it?

The bedrock on which the study is founded is the same as that on which opinion polls are built: random sampling. Selecting even a small number of individuals randomly from a large population allows you to say things about the whole population. Think of a jar containing a million marbles, half of them red and half blue. Choose even 100 of these marbles at random and it is very, very unlikely that all of them would be red. In fact, the results would be very close to 50 of each colour.

The best sort of random sampling is one that picks individuals out directly. This is not possible in Iraq because no reliable census data exist. For this reason, Dr Roberts used a technique called clustering, which has been employed extensively in other situations where census data are lacking, such as studying infectious disease in poor countries.

Clustering works by picking out a number of neighbourhoods at random—33 in this case—and then surveying all the individuals in that neighbourhood. The neighbourhoods were picked by choosing towns in Iraq at random (the chance that a town would be picked was proportional to its population) and then, in a given town, using GPS—the global positioning system—to select a neighbourhood at random within the town. Starting from the GPS-selected grid reference, the researchers then visited the nearest 30 households.

In each household, the interviewers (all Iraqis fluent in English as well as Arabic) asked about births and deaths that had occurred since January 1st 2002 among people who had lived in the house for more than two months. They also recorded the sexes and ages of people now living in the house. If a death was reported, they recorded the date, cause and circumstances. Their deductions about the number of deaths caused by the war were then made by comparing the aggregate death rates before and after March 18th 2003.

They interviewed a total of 7,868 people in 988 households. But the relevant sample size for many purposes—for instance, measuring the uncertainty of the analysis—is 33, the number of clusters. That is because the data from individuals within a given cluster are highly correlated. Statistically, 33 is a relatively small sample (though it is the best that could be obtained by a small number of investigators in a country at war). That is the reason for the large range around the central value of 98,000, and is one reason why that figure might be wrong. (Though if this is the case, the true value is as likely to be larger than 98,000 as it is to be smaller.) It does not, however, mean, as some commentators have argued in response to this study, that figures of 8,000 or 194,000 are as likely as one of 98,000. Quite the contrary. The farther one goes from 98,000, the less likely the figure is.

The second reason the figure might be wrong is if there are mistakes in the analysis, and the whole exercise is thus unreliable. Nan Laird, a professor of biostatistics at the Harvard School of Public Health, who was not involved with the study, says that she believes both the analysis and the data-gathering techniques used by Dr Roberts to be sound. She points out the possibility of “recall bias”—people may have reported more deaths more recently because they did not recall earlier ones. However, because most people do not forget about the death of a family member, she thinks that this effect, if present, would be small. Arthur Dempster, also a professor of statistics at Harvard, though in a different department from Dr Laird, agrees that the methodology in both design and analysis is at the standard professional level. However, he raises the concern that because violence can be very localised, a sample of 33 clusters really might be too small to be representative.

This concern is highlighted by the case of one cluster which, as the luck of the draw had it, ended up being in the war-torn city of Fallujah. This cluster had many more deaths, and many more violent deaths, than any of the others. For this reason, the researchers omitted it from their analysis—the estimate of 98,000 was made without including the Fallujah data. If it had been included, that estimate would have been significantly higher.

The Fallujah data-point highlights how the variable distribution of deaths in a war can make it difficult to make estimates. But Scott Zeger, the head of the department of biostatistics at Johns Hopkins, who performed the statistical analysis in the study, points out that clustered sampling is the rule rather than the exception in public-health studies, and that the patterns of deaths caused by epidemics are also very variable by location.

The study can be both lauded and criticised for the fact that it takes into account a general rise in deaths, and not just that directly caused by violence. Of the increase in deaths (omitting Fallujah) reported by the study, roughly 60% is due directly to violence, while the rest is due to a slight increase in accidents, disease and infant mortality. However, these numbers should be taken with a grain of salt because the more detailed the data—on causes of death, for instance, rather than death as a whole—the less statistical significance can be ascribed to them.

So the discrepancy between the *Lancet* estimate and the aggregated press reports is not as large as it seems at first. The *Lancet* figure implies that 60,000 people have been killed by violence, including insurgents, while the aggregated press reports give a figure of 15,000, counting only civilians. Nonetheless, Dr Roberts points out that press reports are a “passive-surveillance system”. Reporters do not actively go out to many random areas and see if anyone has been killed in a violent attack, but wait for reports to come in. And, Dr Roberts says, passive-surveillance systems tend to undercount mortality. For instance, when he was head of health policy for the International Rescue Committee in the Congo, in 2001, he found that only 7% of meningitis deaths in an outbreak were recorded by the IRC's passive system.

The study is not perfect. But then it does not claim to be. The way forward is to duplicate the *Lancet* study independently, and at a larger scale. Josef Stalin once claimed that a single death is a tragedy, but a million deaths a mere statistic. Such cynicism should not be allowed to prevail, especially in a conflict in which many more lives are at stake. Iraq seems to be a case where more statistics are sorely needed.

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Trade in endangered species

Gorillas in the midst

Nov 4th 2004 | LIMBE
From The Economist print edition

A tug-of-war for the Taiping Four

IF ANYONE doubts the economic value of endangered animals, consider the saga of the Taiping Four. These juvenile western lowland gorillas were poached three years ago, probably in Cameroon. They were smuggled first to Nigeria, and then traded for a reported $1m to a zoo in Taiping, Malaysia. When this illegal deal was exposed last year, Malaysia's authorities chose to send the animals to the Pretoria zoo in South Africa, and a 4m rand ($650,000) state-of-the-art special enclosure is due to open for them next month.

The Taiping Four are sure to draw big crowds: the Pretoria zoo expects 6m visitors in the next decade. Its director, Willie Labuschagne, talks of a breeding programme, and of educating visitors about the impact of hunting wild apes for bush-meat. He also hopes to promote awareness of the international convention on trade in endangered species, known as CITES. His project, in short, is a conservation effort to keep the species alive, if only in captivity.

None of that pleases animal activists and conservationists, especially in West Africa. Groups such as the International Primate Protection League prodded the governments of Cameroon and Nigeria this year to demand that the four apes be sent to a sanctuary in Limbe, Cameroon. There, a dozen rescued gorillas are already kept in good conditions. The conservation groups point out that CITES strongly encourages (though it does not compel) the return of illegally traded animals to their country of origin.

Limbe's managers say that failure to do so will encourage more illegal trading. They accuse Mr Labuschagne of lobbying the Malaysian authorities for the gorillas, knowing they guarantee crowds for any zoo. Mr Labuschagne says publicity-seeking activists are pursuing a “personal agenda” against him. Limbe is merely an ape “orphanage”, he points out. With no breeding programme (Limbe's gorillas are given contraceptive pills), nor project to return its animals to the wild, it is a holding centre for gorillas until they die.

This is a nasty spat. But does it matter beyond the fate of the unlucky Taiping Four? Activists think so. Failure to send such high-profile and high-value animals back to their country of origin “shows there is no teeth in CITES”, says Elizabeth Gadsby of the Pandrillus Foundation, a gorilla-conservation group in Nigeria and Cameroon. If zoos benefit, even indirectly, from illegal trading, then the market for primate poachers is preserved. Some Nigerian zoos are suspected of being centres for an illegal trade in chimpanzees, for example. More species could be hurried to extinction if trade in wild animals expands.

Perhaps. The immediate plight of the Taiping Four probably means little either way for the future of Africa's troubled lowland gorillas. It is nearly impossible to release captive animals like these back into the wild and have them survive. And breeding programmes rarely work. It would be more effective to spend money on protecting the few remote parts of West Africa where other western lowland gorillas survive. But that work, carried out far from the enthralled gaze of a King Kong-loving public, is unglamorous—and much less fun for activists and zoo-keepers alike. And where is the value in that?

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Archaeology

Scientific treasure hunters

Nov 4th 2004 | CLUSIUM, OR POSSIBLY NOT
From The Economist print edition

Archaeologists may have found what was once the biggest city in Italy

REAL archaeology bears about as much resemblance to an Indiana Jones movie as real spying bears to James Bond. Excavation—at least if it is to be meaningfully different from grave robbing—is a matter of painstaking trowel work, not gung-ho gold-grabbing. But there is still a glimmer of the grave robber in many archaeologists, and the search for a juicy royal tomb can stimulate more than just rational, scientific instincts.

Few tombs would be juicier than that of Lars Porsena, an Etruscan king who ruled in central Italy around 500BC. Porsena's tomb has been sought for centuries in the rubble under the Tuscan city of Chiusi, which is believed by most authorities to stand on the site of Porsena's capital, Clusium. No sign of it, however, has ever been found. And that, according to Giuseppe Centauro, of the University of Florence, is because everybody is looking in the wrong place.

Lars Porsena's place in history was ensured by his interference in the revolution that made Rome a republic. The last Roman king, Lucius Tarquinius, nicknamed “Superbus” because of his arrogance, was Etruscan. When he was deposed by the revolutionaries, he appealed to Porsena for help. There are conflicting accounts of whether Porsena succeeded in capturing and ruling Rome, or was forced to make peace with the revolutionaries. Either way, most of those accounts agree that he was eventually buried in a fabulous tomb near his home city of Camars, or Clusium as the Romans called it.

The Etruscans were big on tombs—constructing entire cities for the dead to inhabit—but Porsena's was supposedly the biggest of the lot. It was, according to one ancient source, a monument of rectangular masonry with a square base whose sides were 90 metres (about 300 feet) long and 15 metres high. On this base stood five pyramids, four at the corners and one in the centre, and the points of these pyramids supported a ring from which hung bells whose sound reached for miles when stirred by the wind. From this level rose five more pyramids, and from these another five.

Chiusi was clearly once an Etruscan city, but the evidence that it was actually Clusium boils down to the fact that the two names mean the same thing (“closed”). Such nominative determinism is hardly conclusive. Dr Centauro prefers his evidence to be wrought in stone, and he thinks the most persuasive pile of masonry around is actually on a mountainside near Florence.

At the moment, he is awaiting permission from the authorities to start digging there. But the above-ground remains convince him that he has found the real site of Clusium. He believes he has identified two concentric walls 17km (about ten miles) in circumference—certainly big enough to qualify as the biggest city in Italy before the rise of Rome, which is the reputation that Clusium had.

Such a site has not, of course, completely escaped archaeological attention in the past. A dig in an outlying part of it known as Gonfienti has been under way since 1998. Gabriella Poggesi, the archaeologist in charge of the Gonfienti dig, has unearthed the foundations of what was evidently a wealthy settlement on the banks of the Bisenzio river. She has also found evidence of great damage, probably from a flood that swept through in 480BC, after which the houses were abandoned.

This, Dr Centauro believes, is all grist to his theory. In his view, this riverside settlement was an affluent suburb situated on reclaimed land outside the city walls. He thinks it was built to cope with later expansion, and is younger than the site he now calls Clusium.

The outer walls of the main site are three metres thick, several metres high, uncemented and regular in construction. From the style of the masonry, Dr Centauro is convinced the remains are Etruscan. At

corners where they have collapsed, small rooms are visible. These, he thinks, would have accommodated the sentries who manned the watchtowers.

So where is the tomb? And is it unlooted? Sadly for goldbugs, its riches are probably gone. In 89BC Cornelius Sulla, a Roman general, sacked Clusium and razed it to the ground. But if the ancient descriptions of the tomb are even a pale reflection of the truth, that amount of masonry is unlikely to have wandered far. So if Dr Centauro's hunch is right, and this is Clusium, the old king's secret may soon be dug up.

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More archaeology

Making up the past

Nov 4th 2004
From The Economist print edition

The Romans, too, had sophisticated cosmetics

VANITY is hardly a modern vice. But a paper in this week's *Nature* suggests that the technology for indulging in it has not changed much over the years, either. Richard Evershed, of Bristol University, in England, and his colleagues, have just published a chemical analysis of what turned out to be a cosmetic foundation cream from Roman London.

Even the pot the cream was found in has a modern appearance, being a cylindrical metal canister with a push-on lid. The metal in question is tin, and an oxide of that metal was one of the main ingredients of the cosmetic. Tin oxide is white, and would thus provide the basis for the fair complexion which other evidence suggests was fashionable in London in the second century AD. Tin would also have been reasonably cheap in Britain. The mines in the south-west of the province were one of the ancient world's main sources of the metal. And, as a bonus, tin oxide is harmless. The usual whitening agent in cosmetics of the period, lead acetate, is not.

The creaminess of the cosmetic was provided by animal fats—specifically, body fats boiled from the carcasses of cattle or sheep. The most likely alternatives, butter and pig fat, were ruled out using a technique called isotope-ratio mass spectrometry, which measures the molecular weights of the chemicals in a sample. The third ingredient of the make-up was starch—used to this day in cosmetics to create a powdery feel when a cream is rubbed into the skin.

To test their analysis, the team mixed a modern version of the cream, using the ingredients they had identified. The result was a substance that did, indeed, leave the desired powdery effect on the skin. Roman Londoners, it seems, were just as keen to keep up appearances as their modern descendants are.

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Cosmology

And there was light

Nov 4th 2004
From The Economist print edition

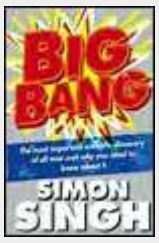
Reuters

The quest to explain the structure of the universe

SPEAKING at a conference last year, Andrew Lange, an American physicist, boiled the history of cosmology down to a single slide containing three bullet points: the universe is expanding; it began as a primeval fireball; and you can still see the glow. This is a beautifully concise summary of the history of everything, though many people would regard it as lacking a little in detail. For a comprehensive yet eminently comprehensible account of how cosmologists pieced together the history of the universe, turn to the latest book by Simon Singh, a British science writer best known for his bestselling account of the solution of Fermat's last theorem.

“Big Bang” is a history of cosmology in its broadest sense: the word is derived from the Greek term for order or world, and Mr Singh's tale begins with the earliest, mythological attempts to fathom the structure of the universe. The first brick in the modern edifice of cosmology was laid by Eratosthenes, a Greek philosopher of the third century BC who cleverly calculated the diameter of the earth. (He had read about a well in southern Egypt whose bottom was illuminated by the sun at noon on the summer solstice, and he then applied some basic trigonometry.) It was then possible to determine the size and distance of the moon by measuring it against the earth's shadow during a lunar eclipse. That, in turn, made it possible to estimate the distance and size of the sun. From the Greeks to Einstein, through Copernicus and Newton, Mr Singh deftly places brick upon brick, building up to the modern Big Bang theory and its observational verification with the discovery of its afterglow, the “cosmic microwave background”.

Big Bang: The Most Important Scientific Discovery of All Time and Why You Need to Know About It
By Simon Singh



Fourth Estate; 532 pages; £20. To be published in America by Fourth Estate in January

Buy it at
Amazon.com
Amazon.co.uk

Many of the stories are familiar, but as in his previous books, Mr Singh explains even the most complicated ideas with subtlety, grace and wit. His explanation of relativistic time dilation, which causes fast-moving clocks to appear to be running slowly when viewed by a stationary observer, is exemplary.

The book's broader theme is the working of science itself, and how new theories are proposed, challenged, tested and then accepted or discarded. This is particularly instructive given the religious overtones of the cosmological debate. Mr Singh repeatedly highlights the human failings of scientists as they fight over priority or struggle to convince their peers of their theories. He gives many examples of

theories that are proposed and then forgotten about, only to be rediscovered by accident many years later; and of scientists who never received the recognition they deserved. He also emphasises the unexpected role of serendipity in scientific progress, one of the author's pet subjects. His point is that science is imperfect, yet it still figures out the answers eventually.

Admittedly, there is less human drama than in his previous books, the first of which was spun around one mathematician's long struggle to solve a particular problem, and the second of which, on the history of code-breaking, contained many tales of derring-do. The history of cosmology turns out to be less of a page-turner, though it is a model of clarity. Given his relish for explaining the fiendishly complicated, and having illuminated the most arcane bits of scientific history, what can Mr Singh possibly turn to next?

Big Bang: The Most Important Scientific Discovery of All Time and Why You Need to Know About It.
By Simon Singh.
Fourth Estate; 532 pages; £20.
To be published in America by Fourth Estate in January

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About sponsorship

New fiction: T.C. Boyle

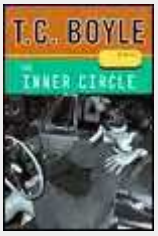
Kinsey's kicks

Nov 4th 2004
From The Economist print edition

“NEVER underestimate the power of sex to incite the public,” says the narrator of T.C. Boyle's tenth novel, “The Inner Circle”. He might as well be identifying the inveterate commercial appeal of the novel itself. Like the life of its central character, Alfred Kinsey, this is a book about sex, sex and more sex. But if it deserves to sell well, that is because it is very good.

Colloquially known as “The Kinsey Report”, Kinsey's published research on America's sexual habits—“Sexual Behavior in the Human Male” (1948) and “Sexual Behavior in the Human Female” (1953)—first titillated, then enraged the public that made both volumes bestsellers. Painstakingly recording the confidential stories of thousands of subjects across the country, Kinsey and his staff documented an astonishingly high rate of premarital relations, adultery and practices that his compatriots considered to be deviant, for instance, habitual masturbation, oral sex and homosexuality. Today, Kinsey appears permanently to have transformed how we look back at the America of the 1950s.

The Inner Circle
By T.C. Boyle



Viking; 432 pages; $25.95. To be published in Britain by Bloomsbury in February

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Though at bottom a story about Kinsey's life, “The Inner Circle” is no lazy biography, but a fully-formed novel. The young narrator is John Milk, Kinsey's first hired researcher and a devoted acolyte. He falls under the sway of this maverick zoologist and embraces Kinsey's aim to become “fully attuned to the enjoyment of what we were made for—that is, sexual relations, of every kind and without inhibition or prohibition.” With a powerful, pansexual libido, Kinsey practises what he preaches, not least with his own staff. Yet when Milk marries the woman he adores, free-love theory clashes calamitously with the emotional realities of jealousy, possessiveness and competition.

Sex is notoriously difficult to write about in fiction, yet Mr Boyle describes so much of it without ever putting a foot wrong. Not a line occasions a wince or an eye-rolling, and his narrator strikes just the right balance between vividness and elision. In other words, the voyeuristic frisson of the material is all pleasure, with no undertow of embarrassment.

While all the characters are well drawn, Alfred Kinsey is particularly so—a brave and brilliant pioneer, but also a manipulator with egomaniac tendencies. The tension between sympathy and antipathy, in both the narrator and the reader, is what makes the novel work. Best of all, “The Inner Circle” is fun to read, and that is amazingly rare in modern literary fiction.

The Inner Circle.
By T.C. Boyle.
Viking; 432 pages; $25.95. To be published in Britain by Bloomsbury in February

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A traveller's tales

Voyages of discovery

Nov 4th 2004
From The Economist print edition

ERIC HANSEN writes about travel as a participating enthusiast rather than a mere observer. It gives these nine essays, based on his adventures over the past quarter-century, a resonance and psychological depth not usually seen in more routine travel narratives.

The reader follows wide-eyed from the armchair as Mr Hansen journeys from the French Riviera to the South Pacific, India, the United States and Borneo. Each story combines nuanced portraits of memorable characters with lyrical descriptions of human fallibility and generosity.

In his wildest tale, Mr Hansen recounts his time working at a hotel on Thursday Island in the Torres Strait. “Seldom,” he writes, “does one have the chance to enjoy the company of people who have so completely given themselves over to the cultivation of the low life in such style and with such gusto.” Beyond the booze, broken glass and fist fights, the author learns the history of the island's pearl divers who, in canvas suits and lead-weighted shoes, snatch gold-lip pearl shells from a seabed teeming with sea snakes, giant groupers and saltwater crocodiles.

The Bird Man and the Lap Dancer: Close Encounters with Strangers
By Eric Hansen

Pantheon; 240 pages; $24

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Other stories tell of drinking hallucinogenic kava in Vanuatu; lingering on a beach with a beautiful Maldivian girl in a pleasurable pursuit that the locals call “night fishing”; cooking *piroshki* with a Moscow émigré in a tiny Manhattan apartment while drug dealers shoot each other in the lobby below; and watching the Indonesian crew of a becalmed tall ship dance on deck to country and western music.

The most moving story comes from Kolkata (formerly Calcutta), where the author's frustration at the impenetrable bureaucracy when trying to ship his belongings home is put into perspective by his voluntary work at Mother Theresa's home for the dying. Here he bathes, feeds and comforts the inhabitants of the men's ward, where the panic and despair of death are replaced by dignity and humour. This sensitive portrait alone makes this heartfelt collection a magical and uplifting read.

The Bird Man and the Lap Dancer: Close Encounters with Strangers.
By Eric Hansen.
Pantheon; 240 pages; $24

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Chinese artefacts at the New York Met

Melting pot

Nov 4th 2004 | NEW YORK
From The Economist print edition

A new exhibition from a neglected period in Chinese history

NEW YORK'S last big show of Chinese art was a dazzler. The Guggenheim Museum's “China: 5,000 years” in 1998 showed 500 greatest hits of Chinese art, from a Neolithic pot to contemporary paintings. The Metropolitan Museum of Art's current exhibition, “China: Dawn of a Golden Age”, is less spectacular in scope, focusing instead on a span of four, relatively unexplored centuries in China's early history. Still, it makes a strong point. China's society has often been more diverse, culturally and ethnically, than some Chinese today might care to admit.

The exhibition covers a period between periods: broadly, the interlude from the fall of the proto-fascist Han empire in the third century to the glory days of the cosmopolitan Tang empire in the middle of the eighth century. Disunity marked the period. Buddhism was not yet the unifying influence it was to become. Meanwhile, mounted nomads on China's northern borders struck deep into the empire, undermining the old order, establishing new dynasties and transforming society. These chaotic times are far less well known than the rule of the Han and Tang.

The first sight to greet a visitor to the show is a colossal stone chimera, a hybrid of lion and bird, in the museum lobby. In the exhibition proper, seven sections each represent separate geographical areas that would eventually come to form part of the Tang empire. The centrepiece of the first room is a Han-period set of 14 cavalry men flanking parasoled chariots. This procession, leading a person of importance into the next world, gives a flavour of the imperial order that was soon to be brought crashing down.

In the following sections, displays of gold, bronze, stone, textiles, paintings and even wooden carvings preserved in arid regions all tell of the influence of nomadic tribes and of a thriving exchange along long-distance trade routes that stretched over the Pamir Mountains to China's west. In the exhibition's concluding part, where the yellow walls are meant to suggest the beginning of the golden age, a big, crowned Buddha and parts of a marble sarcophagus with vivid reliefs are just two of the show's highlights.

Many of the exhibits speak of energetic cultural exchange. For instance, the sarcophagus dating from the Sui dynasty (581-619) appears to have held a community leader from central Asia, probably incorporated into China's civil administration; unearthed near Taiyuan just a few years ago, its intaglios depict Zoroastrian themes from Persia. Elsewhere, a lovely gilt-silver ewer from the fifth or sixth century is of Sogdian origin, while its voluptuous figures appear to be drawn from the story of Helen of Troy.

It took seven years for James Watt, head of the Met's Asian art department and the exhibition's curator, to bring the 250-odd works to New York. Many have been only recently been excavated. Past exhibitions of China have emphasised imperial art. Here, objects of daily life also feature.

Yet the main effect of the exhibition, which runs until January 23rd, is to show China's cosmopolitan wealth and diversity. Voltaire, among others, developed the idea in the West of China as a monolithic culture, an idea that its rulers were not readily going to contradict. It has influenced the West's view of Chinese art history to this day. In reality, says Mr Watt, China is as heterogeneous as America has ever been.

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New poetry

The death of earth

Nov 4th 2004
From The Economist print edition

SOMETIMES people win Nobel prizes for a reason. In his new book-length poem, Derek Walcott, winner of the 1992 prize in literature, shows that fame and a dozen years have done nothing to make his vision or his pen less acute. “The Prodigal” echoes William Carlos Williams's “Patterson” in its geographical fixation. But where the Williams poem dealt with the presence of a New Jersey town, “The Prodigal” is a story of absence from St Lucia, Mr Walcott's birthplace and occasional home. The narrator of the poem wanders, aimlessly, it seems, around Europe (mainly), North America and Africa. The words, on the other hand, are very carefully aimed. Indeed, as Mr Walcott says of language more generally, “every noun has its echo”.

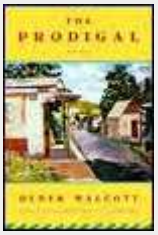
This, and the elegiac tone that suffuses the book, brings to mind the “Four Quartets” of T.S. Eliot. Mr Walcott's diction at times recalls the spareness of Eliot, and he lapses momentarily into rhyme, just as Eliot does: “or the eye leaves it too quickly, its disgrace,/requiring more and more strength, more and more prayer,/pray at the border of the sweetness of despair—/its obscure grace.” Mr Walcott's grace, however, is not as obscure as Eliot's. Though the text is replete with references to artists and poets, most are familiar touchstones for the reader as much as they are for Mr Walcott himself.

Yet, like Eliot, it is his simple sentences that please the most: “this miracle was usual for the season”, or, earlier on, “To go to Germany for the beautiful phrase/*unter den Linden*, which, like a branch in sunshine,/means, ‘without History, under the linden trees'.” Mr Walcott is nothing if not precise, and in his precision is the reader's pleasure. It is an accessible book, and a noble one. At one point, the narrator cries out: “O to be luminous and exact!” Which is just what the book achieves.

Like the best poetry, the combination of luminosity and precision is what allows it to be both old and new at the same time. It is not stale, and yet it has gravity. It fulfils the narrator's hope, expressed towards the end of the poem: “In what will be your last book make each place/as if it had just been made.” One can't ask for better. Perhaps this really will be Mr Walcott's last book—he is now 74. But you do hope it won't be.

The Prodigal.
By Derek Walcott.
Farrar, Straus and Giroux; 112 pages; $20. To be published in Britain by Faber and Faber in February

The Prodigal
By Derek Walcott



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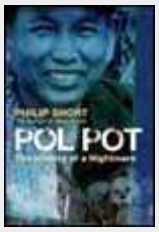
Pol Pot's Cambodia

A dark century's blackest cloud

Nov 4th 2004
From The Economist print edition

HE RAN the country for less than four years, yet between April 1975 and January 1979 Pol Pot killed up to a fifth—some think a quarter—of the Cambodian people to whom he said he was bringing a new and better life. In its way, it was the worst of the 20th century's totalitarian horrors, unless the eventual unlocking of North Korea's doors reveals something even grimmer. Hitler murdered about 6m Jews and others in his concentration camps; Stalin's "anti-party" toll was close to 20m; Chairman Mao's Great Leap Forward starved over 20m to death, before moving on to the Cultural Revolution. But Pol Pot's victims were a much bigger proportion of little Cambodia's 7m people, and few of them could even vaguely be called "enemies of the regime". His killing fields were the most mind-boggling of them all.

Pol Pot: The History of a Nightmare
By Philip Short



John Murray; 656 pages; £25. To be published in America by Henry Holt in February

Buy it at
Amazon.co.uk

Philip Short, who wrote a good book about Mao's China, has now done a spectacularly efficient job of describing what happened, and how. He has spent four years in Cambodia, talking to survivors of the killing-fields, and perpetrators. He has dug up piles of revealing documents. Some of the brightest illumination comes from the handful of westerners who watched what was going on, not least the diaries of Laurence Picq, an honest young Frenchwoman who went to Cambodia thinking she could help a good cause.

The result is a chillingly clear portrait of Saloth Sar, the man who became Pol Pot (and also Grand Uncle, First Brother and sundry other pseudonyms). From a comfortable background—his sister was one of the king's concubines—he went to a smart lycée in still French-run Phnom Penh, and then won a scholarship to study in Paris. There he fell in love with Marxism-Leninism in its especially intellectual French form, and from France he went back to the emerging guerrilla war in Cambodia, to bring communism to his countrymen. Calmly and firmly, he worked his way to the top of the party; and in April 1975 his men marched into Phnom Penh.

It then became pure Orwell. Pol Pot at once ordered the total evacuation of all towns and cities—not just the middle class, but labourers, mechanics, street-cleaners, war refugees, everybody. All Cambodians were to become workers on the land. There were to be no wages. Meals were to be provided by collective kitchens ("unity of feeding"). Each Cambodian had to refer to himself or herself as "we", forbidden to use the first person singular. When one region found it did not have enough food, supplies were not sent from better-off places; rather, the hungry were marched off to look for them.

Of course, it did not work. Up to 1m people died of starvation. Protests began, including among party members. The leadership of the party denounced such "microbes". The protesters were put into camps, including Camp S-21 at Tuol Sleng, the sole task of which was to extract confessions. Many "confessions" turned out to be pure invention, yet all confessors were executed. At least another 100,000 people, maybe 250,000, died at this stage of the proceedings. As Pol Pot's central committee put it, it was necessary "to avoid a solution of peaceful evolution", which could "corrode" the revolution.

Why was Pol Pot's Cambodia even worse than Mao's China, Stalin's Russia and Hitler's Germany? Here Mr Short, so good at finding out what happened, is less good at explaining why it did.

He suggests that Pol Pot, like many other Cambodians, was driven by resentment over his country's loss of glory since the great days of the Angkor empire. But that was 600 years earlier. Lots of other countries have had far more recent puncturings of national pride without being pushed into anything quite as horrible.

Mr Short then wonders whether Buddhism, Cambodia's main religion, lay near the root cause, because it believes in “the demolition of the individual”. This is nonsense. Buddhism, a gentle faith, believes that individual human beings eventually dissolve into nirvana when in successive lives they have earned it. This is not the explanation of Pol Pot's slaughters.

No, it was the bug he picked up in Paris that poisoned Pol Pot. An ideology which believes, as communism did, that a small group of self-selected possessors of the truth will get everything right is bound to produce disaster. Perhaps things were made worse by Pol Pot's desire to outshine the communists in Vietnam; and maybe also by some still unexamined twist in his psyche. All the same, it was the pseudoscientific certainty of Marxism-Leninism, that malformed child of the Enlightenment, which was chiefly to blame.

Pol Pot: The History of a Nightmare.
By Philip Short.
John Murray; 656 pages; £25. To be published in America by Henry Holt in February

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Amazon worldwide bestsellers

The big book index

Nov 4th 2004
From The Economist print edition

Our round-up of the books that are hopping on to the world's shelves

OCTOBER'S list of bestselling titles via Amazon websites brings a mixed bag. An irreverent insight into America's political system from the writers of The Daily Show is, in election season, at the top of the list, while Ann Coulter's conservatism with attitude continues to infuriate liberals. Communication, or the lack of it, between men and women forms the subject of two books. Meanwhile, Michael Palin, a British comedian-turned-adventurer, and Jamie Oliver, a chef, tell us where to go and what to eat.

1. The Daily Show with Jon Stewart Presents America (The Book): A Citizen's Guide to Democracy Inaction.
By Jon Stewart. *Warner Books; 240 pages; $14.97 and £12.51*

Jon Stewart and the writers of America's popular late-night comedy "The Daily Show" offer hilarious insights into their country's unique form of government.

Click to buy from Amazon.com or Amazon.co.uk

2. He's Just Not That Into You: The No-Excuses Truth to Understanding Guys.
By Greg Behrendt. *Simon Spotlight Entertainment; 176 pages; $11.97. Element Books; £5.59*

Men's mixed messages decoded by a former story editor for "Sex and the City".

Click to buy from Amazon.com or Amazon.co.uk

3. Good to Great: Why Some Companies Make the Leap and Others Don't.
By Jim Collins. *Harper Business; 320 pages; $27.50. Random House; £14*

How to convert corporate mediocrity into excellence, by a business writer read around the world.

Click to buy from Amazon.com or Amazon.co.uk

4. The Plot Against America.
By Philip Roth. *Houghton Mifflin; 400 pages; $15.60. Jonathan Cape; £10.19*

What happens to one Jewish family when America's welcome is gradually rescinded.

Click to buy from Amazon.com or Amazon.co.uk

5. Jamie's Dinners.
By Jamie Oliver. *Hyperion; 336 pages; $23.77. Michael Joseph; £12*

Jamie and his pukka tucker go Stateside.

Click to buy from Amazon.com or Amazon.co.uk

6. Chronicles: Volume One.
By Bob Dylan. *Simon & Schuster; 302 pages; $14.40 and £11.89*

The bard's formative years uncovered in the first part of a three-volume autobiography.

Click to buy from Amazon.com or Amazon.co.uk

7. Langenscheidt Deutsch-Frau/Frau-Deutsch.
With Mario Barth. *Langenscheidt; 128 pages; €9.95*

A dictionary (for men) that translates what women say into what they actually mean.

Click to buy from Amazon.de

8. How to Talk to a Liberal (If You Must): The World According to Ann Coulter.
By Ann Coulter. *Crown Forum; 368 pages; $16.17 and £13.52*

A controversial conservative pundit tells us why liberals are so wrong.

Click to buy from Amazon.com or Amazon.co.uk

9. Himalaya.
By Michael Palin. *Weidenfeld & Nicolson; 288 pages; £12*

The amiable former Python ambles about the greatest mountain range on earth.

Click to buy from Amazon.co.uk

10. Going Postal.
By Terry Pratchett. *Doubleday; 329 pages; £10.79*

The latest Discworld offering of fantasy.

Click to buy from Amazon.co.uk

Source: Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr and Amazon.jp, from September 23rd-November 1st 2004. Prices are quoted from Amazon.com and Amazon.co.uk, and are correct as of November 2nd.

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About sponsorship

Correction: Jacques Derrida

Nov 4th 2004
From The Economist print edition

In our obituary of Jacques Derrida (October 23rd), we gave “logical phallusies” as an example of his weak puns. We were wrong; it was not his coinage. But “phallogocentrique” was (see, if you will, “Éperons: Les Styles de Nietzsche”, 1978). Our apologies.

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About sponsorship

Obituary

John Peel

Nov 4th 2004
From The Economist print edition

John Peel, born John Ravenscroft, music lover, died on October 26th, aged 65

Redfern

THE modern world of music offers an embarrassment of riches. Faced with shops full of compact discs, records and tapes, the ordinary listener hardly knows where to start. With popular music, in particular, there is now an almost inverse relationship between the popularity of a song and its quality. The best new film or book usually gets noticed; the best new popular song is undoubtedly one that few people have heard of and that fewer still will have the patience, or the funds, to find.

What is the popular-music lover to do? For the past 37 years, in Britain at least, the answer has been clear: listen to John Peel. From 1967 onwards, Mr Peel broadcast a music show on the BBC's Radio 1 where he played records he liked. In his eyes, he was no more responsible for the music than a newspaper editor is for the day's events. He did not, after all, create anything. The music was all there already.

Yet selection is creating, after a fashion. A sculptor picks which bits of marble to include and which to chisel away. Mr Peel's medium was larger than that of any of the bands he championed: the whole of popular music, which was shaped, at least to some degree, according to his taste. The number of acts he raised from obscurity to fame (David Bowie, Marc Bolan, Captain Beefheart, the Undertones, the Smiths) is large; the number of bands he raised from obscurity to semi-obscurity is even larger. Happily, though, he never saw promotion as his task. His demeanour on the radio was one of pure delight: delight in the new, the unexpected and the good. Listening to him, it was difficult to avoid the conclusion that the listener was at some level irrelevant—the point was for Mr Peel himself to revel in the music.

That is not to say he avoided the usual formalities: “I hope you enjoy this one”, and the like. He said such things, and meant them. But they were secondary. He never pandered to the audience. A catchy, addictive tune might be followed by a few minutes of sheer noise. What he most liked, he once said, was not only music he had never heard before, but music he could relate to nothing else.

Mr Peel's show was quite unpredictable, save, in later years, for one fixture: “Pig's Big 78”, halfway through. This was a 78 rpm record chosen by his wife, affectionately nicknamed Pig. The sound quality would be terrible, as no one had made such records since the late 1950s, and the ones Mr Peel played often came from much earlier than that. But the 78s were no exception to his passion for novelty. They were old enough to be new again.

Radio shows are by nature ephemeral. But from his early days on the BBC, Mr Peel had invited musicians to come into the studio and perform for him and his audience. These “Peel Sessions”, as they came to be known, were a sort of shadow Greatest Hits of popular music of the past 30 years. Bands liked coming on his show as much as he liked having them. The publicity, of course, did not hurt, and Mr Peel's own enthusiasm seemed to lend the music vitality. For all that, he rarely formed close relationships with musicians. It was the end product that mattered to him, not the process of creation.

Crashing the car

Mr Peel lived in Suffolk, a gently undulating county two hours away from London, in a house he dubbed

“Peel Acres”. He kept chickens there, like a country yeoman. On the long drive home from the studio after recording his show, he would listen to demo tapes that unknown bands had sent him, throwing the ones he didn't like on the floor and the ones he did on the back seat. One day, he supposed, he would be squinting to discern a good new band's name and would kill himself by crashing the car. It was probably, he said, how people imagined he would like to go.

Yet Mr Peel always seemed too young to be considering how he would like to die. And there was too much music to be listened to. Although it was not work to him, but sheer pleasure, he nonetheless spent hours every day listening to music he had never heard before. By the time he died—suddenly, of a heart attack in Peru—he had possibly listened to more music than anyone else alive. And though studios had become as computerised as the rest of the world, he continued to prefer playing vinyls on turntables. They sounded better.

He did not start his radio career at the BBC, but at WRR, in Dallas, Texas. He had been in America for two years, working as a crop-insurance agent, when the Beatles started sweeping America. His scouse accent was suddenly marketable, even if he hammed it up a bit. Although he was born just outside Liverpool, the son of a cotton broker, he went to Shrewsbury, a mid-ranking public school. He once said that his life was changed, and set on course, at Shrewsbury when he first heard Elvis Presley singing “Heartbreak Hotel”. If it had not been Elvis, it would have been some other song.

He also credited his time at Shrewsbury with sustaining his BBC career. The toffs at the corporation figured that an old boy couldn't be all that bad, even if he played music no one else on the station knew. But he remained a slightly dangerous outlier. When he first returned to England in 1967, he spent six months working for a pirate radio station on a ship in the North Sea. He never lost that pirate streak.

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Overview

Nov 4th 2004
From The Economist print edition

America's GDP grew at an annual rate of 3.7% in the third quarter, up from 3.3% in the previous quarter. The growth in consumer spending surged to an annualised 4.6%. According to Lombard Street Research, as much as two-thirds of total GDP growth in the three months came from a fall in the household saving rate, which dropped to only 0.4% of disposable income. Inflation, as measured by the core personal-consumption-expenditure deflator (excluding food and energy) fell to 0.7% at an annual rate in the third quarter, its lowest since 1962.

In October, **Germany's** unemployment rose for a ninth consecutive month, to 4.46m, its highest level in more than six years, although the jobless rate was unchanged as a percentage of the labour force, at 10.7%. **France's** unemployment rate held steady in September, at 9.9%. But using the EU's standardised measure, Germany's jobless rate was exactly the same as France's in September. Germany's retail sales fell by 1.4% in the year to September.

Consumer prices in **Japan** were flat in the year to September, raising hopes that the country's long period of deflation is nearing its end. In the same month, Japan's unemployment rate fell to 4.6% of the labour force, down from 5.1% a year earlier.

Canada's industrial production increased by 6.4% in the year to August. In the year to August 2003, output fell by 2.7%.

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The Economist poll of forecasters

Nov 4th 2004
From The Economist print edition

The Economist poll of forecasters, November averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2004	2005	2004	2005	2004	2005	2004	2005
Australia	3.4/3.8	2.6/3.7	3.6 (3.7)	3.2 (3.3)	2.5 (2.4)	2.7	–5.8	–5.3 (–5.0)
Austria	1.0/2.0	1.5/2.4	1.6	2.1	1.7	1.6	–0.3	–0.4
Belgium	1.7/2.7	1.5/2.5	2.4	2.1	2.0 (1.9)	1.8 (1.7)	3.3 (3.2)	3.2
Britain	3.1/3.4	2.2/3.0	3.2 (3.4)	2.5 (2.7)	1.4	1.7 (1.8)	–2.5(–2.4)	–2.7 (–2.6)
Canada	2.9/3.1	2.8/4.0	3.0	3.3 (3.4)	2.0	2.2	2.8	2.5 (2.4)
Denmark	2.0/2.5	2.0/2.5	2.3 (2.2)	2.3	1.2	1.8	2.9	2.6
France	2.0/2.5	2.0/2.6	2.4 (2.5)	2.2 (2.3)	2.3 (2.2)	1.7 (1.6)	0.3	0.3
Germany	1.3/1.8	1.2/2.1	1.5	1.6 (1.7)	1.8 (1.7)	1.4 (1.3)	3.2 (3.1)	2.9
Italy	1.0/1.2	0.9/2.0	1.1 (1.2)	1.6	2.3	2.1	–0.9	–1.1
Japan	4.0/4.5	1.0/3.1	4.3	2.1 (2.2)	–0.1	0.1	3.5	3.5
Netherlands	1.0/1.6	1.1/2.0	1.2	1.6	1.4	1.3 (1.2)	2.9	3.0
Spain	2.5/2.8	2.0/3.0	2.6	2.5 (2.6)	2.9	2.8 (2.7)	–3.4(–3.1)	–3.6 (–3.1)
Sweden	3.0/3.8	2.5/3.6	3.4 (3.3)	2.9 (2.8)	0.7 (0.8)	1.6 (1.5)	7.0 (6.6)	6.4 (6.1)
Switzerland	1.7/2.0	1.3/2.3	1.8 (1.9)	2.0	0.7 (0.8)	1.1	11.3	10.8
United States	4.2/4.5	3.0/4.0	4.4 (4.3)	3.4	2.6	2.3 (2.2)	–5.5	–5.4 (–5.3)
Euro area	1.6/2.0	1.5/2.3	1.8 (1.9)	1.9	2.1	1.8 (1.7)	0.6	0.6

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month, *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. Our panel has become more pessimistic about Britain's prospects. It now expects British GDP to grow by 3.2% in 2004 and by 2.5% in 2005, down from 3.4% and 2.7% respectively in October. It has shaved this year's growth forecast for the euro area to 1.8%, but left next year's unchanged at 1.9%. In contrast, it has raised this year's growth prediction for America to 4.4% while leaving next year's unchanged at 3.4%. The panel expects Japan to grow in 2005 by 2.1%, a bit less than it did a month ago.

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Output, demand and jobs

Nov 4th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 4.1	Q2	+ 2.5	+ 3.6	+ 3.2	+ 4.6	Q2	+ 7.9	Q2	5.6	Sep	5.9
Austria	+ 1.8	Q2	+ 3.5	+ 1.6	+ 2.1	+ 9.5	Aug	+ 3.5	Jul	4.5	Oct	4.6
Belgium	+ 3.0	Q3	+ 3.2	+ 2.4	+ 2.1	+ 4.0	Aug	+ 1.7	Jul	13.2	Sep†	13.2
Britain	+ 3.0	Q3	+ 1.5	+ 3.2	+ 2.5	− 0.1	Aug	+ 6.9	Sep	4.7	Aug††	5.0
Canada	+ 3.0	Q2	+ 4.3	+ 3.0	+ 3.3	+ 6.4	Aug	+ 2.4	Jul	7.1	Sep	7.9
Denmark	+ 2.6	Q2	+ 1.0	+ 2.3	+ 2.3	− 1.1	Aug	+ 4.2	Sep	6.3	Sep	6.3
France	+ 2.8	Q2	+ 2.8	+ 2.4	+ 2.2	+ 0.7	Aug	+ 1.0	Aug	9.9	Sep	9.9
Germany	+ 2.0	Q2	+ 1.9	+ 1.5	+ 1.6	+ 3.5	Aug	− 1.4	Sep	10.7	Oct§	10.5
Italy	+ 1.2	Q2	+ 1.1	+ 1.1	+ 1.6	− 3.5	Aug	− 2.3	Jul	8.1	Apr	8.7
Japan	+ 4.2	Q2	+ 1.3	+ 4.3	+ 2.1	+ 3.8	Sep	− 1.6	Aug	4.6	Sep	5.1
Netherlands	+ 1.3	Q2	− 0.4	+ 1.2	+ 1.6	− 0.1	Aug	− 0.7	Jun‡	6.1	Sep**	5.4
Spain	+ 2.6	Q2	+ 2.0	+ 2.6	+ 2.5	+ 5.5	Aug	− 1.6	Aug	11.0	Aug	11.2
Sweden	+ 3.6	Q2	+ 4.0	+ 3.4	+ 2.9	+ 3.9	Aug	+ 5.2	Sep	5.8	Sep†	4.8
Switzerland	+ 2.0	Q2	+ 1.6	+ 1.8	+ 2.0	+ 4.3	Q2	+ 3.1	Aug	3.7	Sep†	3.7
United States	+ 3.9	Q3	+ 3.7	+ 4.4	+ 3.4	+ 4.6	Sep	+ 6.3	Sep	5.4	Sep	6.1
Euro area	+ 2.0	Q2	+ 2.0	+ 1.8	+ 1.9	+ 1.5	Aug	− 0.4	Aug	9.0	Aug	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.7	Q2	+ 2.9	na	na	+ 5.1	Sep	+ 3.8	Aug	7.2	Sep†	8.0
Greece	+ 3.9	Q2	− 0.6	na	na	− 0.5	Aug	+ 6.6	Jul	na		na
Iceland	+ 6.2	Q2	na	na	na	na		na		2.6	Sep†	2.7
Ireland	+ 4.1	Q2	na	na	na	−12.6	Aug	+ 4.5	Aug	4.5	Sep	4.6
Luxembourg	+ 2.1	2003	na	na	na	− 1.2	Dec	− 1.1	May	4.1	Aug	3.6
New Zealand	+ 6.0	Q2	+ 4.6	na	na	+ 5.5	Q2	+ 6.8	Q2	4.0	Q2	4.7
Norway	+ 4.1	Q2	+ 5.0	na	na	− 6.5	Aug	+ 2.0	Sep	3.7	Oct	3.8
Portugal	+ 1.5	Q2	+ 4.7	na	na	− 3.6	Sep	+ 3.6	Sep	6.3	Q2†	6.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Jun-Aug; claimant count rate 2.7% in Sep. §EU harmonised rate 9.9% in Oct. **Jul-Sep.

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Prices and wages

Nov 4th 2004
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% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.3	Q3	+ 2.6	+ 2.5	+ 2.7	+ 6.1	Q3	– 0.1	+ 2.9	Q2	+ 5.5
Austria	+ 2.1	Sep	+ 1.4	+ 1.7	+ 1.6	+ 6.0	Sep	+ 1.3	+ 2.0	Sep	+ 2.3
Belgium	+ 2.9	Oct	+ 1.6	+ 2.0	+ 1.8	+ 6.0	Sep	– 1.4	+ 2.2	Jul	+ 1.9
Britain	+ 1.1	Sep*	+ 1.4	+ 1.4	+ 1.7	+ 3.1	Sep	+ 1.4	+ 3.9	Aug†	+ 3.4
Canada	+ 1.8	Sep	+ 2.2	+ 2.0	+ 2.2	+ 4.6	Sep	– 2.7	+ 2.2	Aug	+ 3.5
Denmark	+ 1.1	Sep	+ 1.9	+ 1.2	+ 1.8	+ 3.4	Sep	– 0.5	+ 3.1	Q2	+ 3.8
France	+ 2.2	Sep	+ 2.1	+ 2.3	+ 1.7	+ 3.1	Sep	+ 0.1	+ 2.8	Q2	+ 2.7
Germany	+ 2.1	Oct	+ 1.2	+ 1.8	+ 1.4	+ 3.4	Sep	+ 0.5	+ 1.5	Aug	+ 2.0
Italy	+ 2.0	Oct	+ 2.6	+ 2.3	+ 2.1	+ 3.9	Sep	+ 1.0	+ 2.5	Sep	+ 2.7
Japan	nil	Sep	– 0.2	– 0.1	+ 0.1	+ 1.8	Sep	– 0.6	+ 0.7	Sep	+ 1.5
Netherlands	+ 1.0	Sep	+ 2.0	+ 1.4	+ 1.3	+ 5.3	Aug	+ 0.6	+ 1.1	Sep	+ 2.6
Spain	+ 3.5	Oct	+ 2.7	+ 2.9	+ 2.8	+ 4.6	Sep	+ 0.8	+ 3.1	Q2	+ 4.2
Sweden	+ 0.6	Sep	+ 1.7	+ 0.7	+ 1.6	+ 2.1	Sep	– 1.5	+ 2.2	Aug	+ 3.3
Switzerland	+ 1.3	Oct	+ 0.5	+ 0.7	+ 1.1	+ 1.5	Sep	– 0.4	+ 1.4	2003	+ 1.8
United States	+ 2.5	Sep	+ 2.3	+ 2.6	+ 2.3	+ 3.3	Sep	+ 3.5	+ 2.4	Sep	+ 2.4
Euro area	+ 2.5	Oct	+ 2.0	+ 2.1	+ 1.8	+ 3.1	Aug	+ 1.4	+ 2.1	Q2	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.4	Sep	+ 0.7	na	na	+ 2.5	Sep	– 0.7	+ 3.5	Q2	+ 4.4
Greece	+ 2.8	Sep	+ 3.3	na	na	+ 2.1	Aug	+ 2.2	na		na
Iceland	+ 3.7	Oct	+ 2.2	na	na	+ 5.6	Oct	+ 3.7	+ 5.3	Sep	+ 5.6
Ireland	+ 2.5	Sep	+ 2.9	na	na	– 0.8	Sep	– 7.8	+ 3.8	Q2	+ 8.0
Luxembourg	+ 2.0	Sep	+ 2.1	na	na	+11.0	Aug	+ 0.5	– 0.4	Dec	+ 0.7
New Zealand	+ 2.5	Q3	+ 1.5	na	na	+ 1.5	Q2	– 1.9	+ 2.3	Q2	+ 2.3
Norway	+ 1.1	Sep	+ 2.1	na	na	+20.3	Sep	– 0.5	+ 4.5	Q2	+ 5.4
Portugal	+ 2.1	Sep	+ 3.1	na	na	+ 4.5	Sep	– 0.2	– 0.2	Aug	– 1.4

*New series. RPI inflation rate 3.1% in Sep. †Jun-Aug.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % a year (Nov 3rd 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 4.2	+ 9.7	Sep	5.44	5.11	5.08	5.37	5.82	6.19
Britain	+ 5.8	+ 9.3	Sep	4.84	3.92	4.61	4.79	4.99	5.40
Canada	+ 9.6	+ 9.1	Sep	2.61	2.69	3.24	4.45	4.90	5.96
Denmark	+ 9.8	+10.7	Sep	2.25	2.10	2.59	3.94	4.48	5.35
Japan	+ 4.1	+ 2.1	Sep	0.03	0.02	0.13	1.54	1.52	1.60
Sweden	+ 1.6	+ 3.1	Sep	1.99	2.72	2.63	4.18	4.89	2.62
Switzerland	– 2.0	+ 0.6	Sep	0.74	0.26	0.96	2.52	2.72	2.41
United States	+ 5.0	+ 4.8	Sep	2.14	1.03	2.58	4.07	4.35	5.61
Euro area†	+ 9.7	+ 6.0	Sep	2.16	2.16	2.46	3.86	4.31	3.73

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.82%, Japan No. 264 1.53%. Central bank rates: US fed funds 1.75%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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Stockmarkets

Nov 4th 2004
From The Economist print edition

Market indices

	Nov 3rd	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,839.2	3,839.2	3,274.9	+ 2.3	nil	+16.1	+16.3
Austria (ATX)	2,159.0	2,159.0	1,568.9	+ 3.4	nil	+39.7	+41.8
Belgium (Bel 20)	2,840.5	2,840.5	2,244.2	+ 3.0	-22.9	+26.6	+28.4
Britain (FTSE 100)	4,718.5	4,718.5	4,287.0	+ 1.9	-31.9	+ 5.4	+ 8.8
Canada (Toronto Composite)	8,841.4	8,898.8	8,123.5	+ 0.6	-22.4	+ 7.5	+14.7
Denmark (KBX)	247.7	253.0	219.0	+ 1.2	-17.9	+16.0	+17.9
France (SBF 250)	2,578.9	2,594.4	2,386.1	+ 2.3	-41.3	+ 6.9	+ 8.5
(CAC 40)	3,769.9	3,811.4	3,465.3	+ 2.5	-45.5	+ 6.0	+ 7.5
Germany (DAX)	4,039.0	4,151.8	3,647.0	+ 2.8	-49.9	+ 1.9	+ 3.4
Italy (BCI)	1,382.0	1,382.0	1,239.5	+ 2.5	-36.7	+10.0	+11.6
Japan (Nikkei 225)	10,887.8§	12,163.9	10,365.4	+ 1.8	-72.0	+ 2.0	+ 3.0
(Topix)	1,094.9§	1,217.9	1,022.6	+ 1.9	-62.0	+ 4.9	+ 5.9
Netherlands (AEX)	335.6	364.8	310.7	+ 2.4	-52.2	- 0.6	+ 0.9
Spain (Madrid SE)	898.5	898.5	804.4	+ 2.0	-21.6	+11.2	+12.8
Sweden (Affarsvarlden Gen)	213.7	218.1	188.5	+ 3.2	-46.6	+13.4	+15.3
Switzerland (Swiss Market)	5,538.9	5,934.4	5,309.7	+ 3.1	-34.2	+ 0.9	+ 4.4
United States (DJIA)	10,137.1	10,737.7	9,750.0	+ 1.4	-13.5	- 3.0	- 3.0
(S&P 500)	1,143.2	1,157.8	1,063.2	+ 1.6	-25.2	+ 2.8	+ 2.8
(NASDAQ Comp)	2,004.3	2,153.8	1,752.5	+ 1.7	-60.3	nil	nil
Europe (FTSE Eurotop 300)*	1,019.1	1,026.2	940.9	+ 2.4	-40.2	+ 6.4	+ 8.0
Euro area (FTSE Ebloc 100)*	869.0	888.3	787.2	+ 2.5	-44.0	+ 4.5	+ 6.0
World (MSCI)†	1,090.4	1,090.4	997.0	+ 2.1	-24.7	+ 5.2	+ 5.2
World bond market (Citigroup)‡	633.5	633.8	575.1	nil	- 0.1	+ 4.9	+ 4.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ‡Citigroup World Government Bond Index, total return, in $ terms. §Nov 2nd.

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Trade, exchange rates and budgets

Nov 4th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2004	Current-account balance The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Nov 3rd	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Nov 3rd	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 17.0 Sep	− 34.2 Q2	− 5.8	− 5.3	86.7	86.4	1.32	1.41	2.45	1.70	1.25	+ 0.5
Austria	− 0.5 Aug	− 1.2 Aug	− 0.3	− 0.4	103.0§	102.8	0.78	0.87	1.44	–	0.74	− 1.3
Belgium	+ 20.6 Aug	+ 13.0 Jun	+ 3.3	+ 3.2	103.1§	102.8	0.78	0.87	1.44	–	0.74	− 0.2
Britain	−100.8 Aug	− 41.7 Q2	− 2.5	− 2.7	102.4	101.6	0.54	0.59	–	0.69	0.51	− 2.9
Canada	+ 51.6 Aug	+ 23.8 Q2	+ 2.8	+ 2.5	94.6	87.4	1.21	1.33	2.24	1.55	1.14	+ 1.2
Denmark	+ 10.1 Aug	+ 6.8 Aug	+ 2.9	+ 2.6	107.0	105.7	5.81	6.47	10.7	7.43	5.47	+ 0.9
France	− 0.9 Aug††	− 2.0 Aug	+ 0.3	+ 0.3	106.5§	106.1	0.78	0.87	1.44	–	0.74	− 3.8
Germany	+188.1 Aug	+ 92.5 Aug	+ 3.2	+ 2.9	104.3§	103.7	0.78	0.87	1.44	–	0.74	− 3.7
Italy	+ 3.2 Aug	− 12.2 Aug	− 0.9	− 1.1	76.0§	75.6	0.78	0.87	1.44	–	0.74	− 3.1
Japan	+132.7 Aug	+167.0 Aug	+ 3.5	+ 3.5	135.7	137.5	106	110	196	136	–	− 7.1
Netherlands	+ 34.2 Aug	+ 20.7 Q2	+ 2.9	+ 3.0	102.5§	102.2	0.78	0.87	1.44	–	0.74	− 3.1
Spain	− 66.3 Aug	− 35.8 Jul	− 3.4	− 3.6	77.1§	76.9	0.78	0.87	1.44	–	0.74	+ 0.3
Sweden	+ 23.1 Sep	+ 23.4 Q2	+ 7.0	+ 6.4	82.5	81.4	7.08	7.87	13.1	9.06	6.67	+ 0.2
Switzerland	+ 7.9 Sep	+ 45.0 Q2	+11.3	+10.8	114.1	109.7	1.20	1.36	2.21	1.53	1.13	− 1.6
United States	−611.6 Aug	−571.9 Q2	− 5.5	− 5.4	92.0	99.8	–	–	1.86	1.28	0.94	− 4.7
Euro area	+106.4 Aug	+ 60.3 Aug	+ 0.6	+ 0.6	92.4	88.7	0.78	0.87	1.44	–	0.74	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 14.6 Aug	+ 8.5 Aug	na	na	82.1§	81.8	0.79	0.87	1.46	–	0.74	+ 1.6
Greece	− 29.6 Aug	− 10.9 Aug	na	na	59.6§	59.4	0.79	0.87	1.46	–	0.74	− 3.2
Iceland	− 0.5 Aug	− 0.6 Q2	na	na	95.7**	97.2	69.4	76.3	128	88.8	65.4	+ 0.2
Ireland	+ 42.5 Aug	− 1.7 Q2	na	na	94.2§	94.3	0.79	0.87	1.46	–	0.74	− 0.5
Luxembourg	− 4.3 Aug	+ 2.1 Q2	na	na	103.1§	102.8	0.79	0.87	1.46	–	0.74	− 1.8
New Zealand	− 2.6 Sep	− 3.9 Q2	na	na	106.3	96.4	1.44	1.62	2.66	1.84	1.36	+ 2.9
Norway	+ 31.4 Sep	+ 31.7 Aug	na	na	99.0	96.4	6.53	7.19	12.1	8.36	6.15	+ 10.4
Portugal	− 16.6 Jul	− 11.2 Aug	na	na	93.4**	93.8	0.79	0.87	1.46	–	0.74	− 3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, August average. ‡OECD forecast. ††New series. **IMF, June average.

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Commodity price index

Nov 4th 2004
From The Economist print edition

1995=100

	Oct 26th	Nov 2nd*	% change on one month	% change on one year
Dollar index				
All items	86.0	86.0	– 2.0	– 0.4
Food	80.0	78.5	– 0.5	– 8.3
Industrials				
All	94.2	96.2	– 3.6	+10.2
Nfa†	81.6	81.1	– 2.5	– 9.9
Metals	104.9	108.9	– 4.3	+28.2
Sterling index				
All items	73.9	73.8	– 5.0	– 9.0
Euro index				
All items	88.6	89.1	– 5.0	– 9.8
Yen index				
All items	97.6	97.2	– 6.3	– 3.4
Gold				
$ per oz	425.73	421.43	+ 1.3	+11.0
West Texas Intermediate				
$ per barrel	55.20	49.59	– 2.9	+71.9

* Provisional. † Non-food agriculturals.

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Private pension fund investments

Nov 4th 2004
From The Economist print edition

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Overview

Nov 4th 2004
From The Economist print edition

China's central bank boosted its one-year lending rate to 5.58% from 5.31%, its first rate rise in nine years. **India's** central bank raised rates from 4.5% to 4.75%.

South Korea's industrial production rose by 9.3% in the year to September.

Consumer prices in **Turkey** rose by 9.9% in the year to October.

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External debt

Nov 4th 2004
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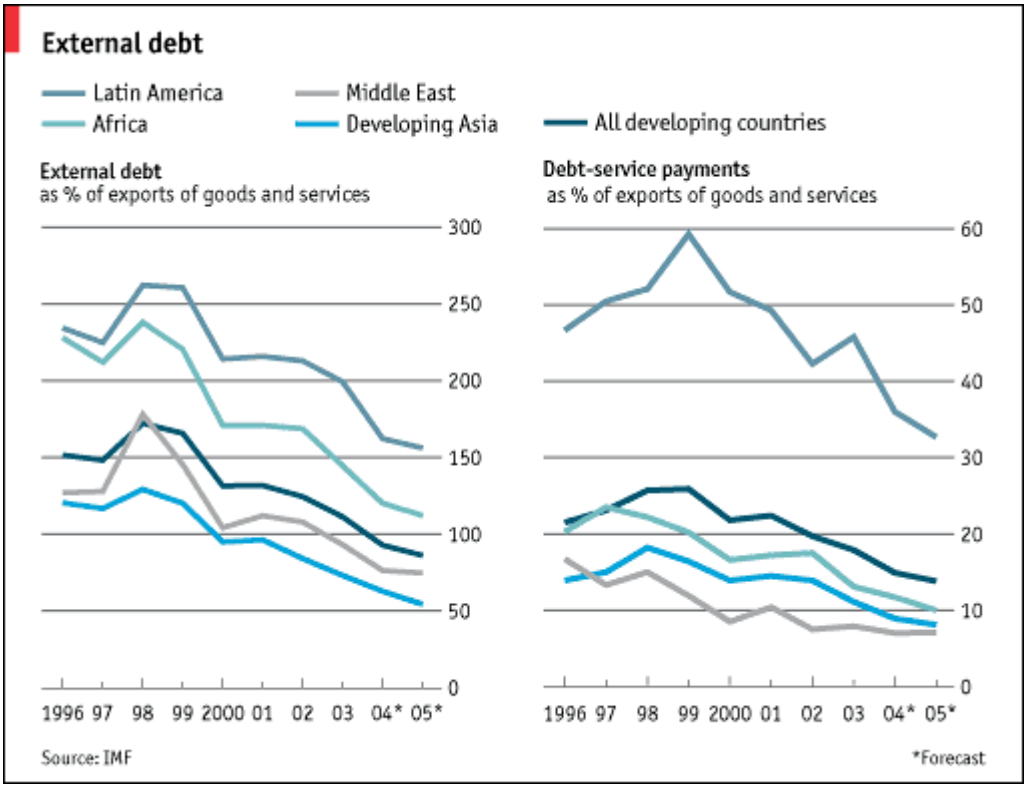

Poor countries' debt burdens continue to decline, according to the IMF's latest figures. The stock of external debt in emerging economies is expected to fall to 86% of exports by 2005. Debt-service payments (interest and principal) are also expected to fall next year, to 14% of exports, down from a high of 26% in 1999. Debt payments as a proportion of exports have been falling sharply in Latin America in recent years, but remain around four times those of emerging Asian economies.

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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.1	Q3	+16.1	Sep	+ 5.2	Sep	+20.9	Sep	+45.9	2003	514.5	Sep
Hong Kong	+12.1	Q2	+ 1.1	Q2	+ 0.7	Sep	−13.8	Sep	+13.6	Q2	118.4	Sep
India	+ 7.4	Q2	+ 7.9	Aug	+ 4.8	Sep	−20.0	Sep	+11.0	Q2	113.3	Sep
Indonesia	+ 4.3	Q2	− 9.6	Jul	+ 6.2	Oct	+25.4	Sep	+ 3.9	Q2	33.6	Aug
Malaysia	+ 8.0	Q2	+10.6	Aug	+ 1.6	Sep	+21.1	Sep	+13.6	Q2	56.6	Sep
Philippines	+ 6.2	Q2	− 5.0	Aug	+ 6.9	Sep	− 1.4	Aug	+ 4.5	Jun	12.5	Sep
Singapore	+ 7.7	Q3	+11.8	Sep	+ 2.0	Sep	+16.3	Sep	+28.4	Q2	102.8	Sep
South Korea	+ 5.5	Q2	+ 9.3	Sep	+ 3.8	Oct	+29.3	Oct	+28.0	Sep	178.3	Oct
Taiwan	+ 7.7	Q2	+ 8.1	Sep	+ 2.8	Sep	+10.8	Sep	+25.8	Q2	233.0	Sep
Thailand	+ 6.3	Q2	+ 7.7	Sep	+ 3.5	Oct	+ 1.1	Sep	+ 6.7	Sep	43.7	Sep
Argentina	+ 7.0	Q2	+ 6.0	Sep	+ 5.6	Oct	+12.6	Sep	+ 4.6	Q2	18.2	Sep
Brazil	+ 5.7	Q2	+13.1	Aug	+ 6.7	Sep	+32.6	Oct	+ 9.8	Sep	49.5	Sep
Chile	+ 5.1	Q2	+12.0	Sep	+ 2.2	Sep	+ 7.5	Sep	+ 1.2	Q2	15.8	Sep
Colombia	+ 4.3	Q2	+ 8.9	Aug	+ 5.9	Oct	+ 0.2	Jul	− 1.6	Q2	12.0	Sep
Mexico	+ 3.9	Q2	+ 5.2	Aug	+ 5.1	Sep	− 4.9	Sep	− 6.7	Q2	61.0	Aug
Peru	+ 6.0	Aug	+ 5.2	Aug	+ 4.0	Oct	+ 1.9	Aug	− 0.7	Q2	11.2	Sep
Venezuela	+13.6	Q2	+27.6	Jul	+19.7	Oct	+20.3	Q2	+14.0	Q2	18.7	Jul
Egypt	+ 4.3	2004†	+ 2.3	2003†	+16.5	May‡	− 7.5	Q2	+ 3.7	Q2	13.6	Jun
Israel	+ 2.8	Q2	+12.5	Aug	+ 0.8	Sep	− 5.7	Sep	+ 0.1	Q2	26.1	Sep
South Africa	+ 2.5	Q2	+ 6.8	Aug	+ 1.3	Sep	− 1.1	Sep	− 3.5	Q2	10.7	Sep
Turkey	+13.4	Q2	+ 8.8	Aug	+ 9.9	Oct	−31.3	Aug	−14.0	Sep	33.9	Aug
Czech Republic	+ 4.1	Q2	+ 8.7	Aug	+ 3.0	Sep	− 1.9	Aug	− 6.2	Q2	26.8	Sep
Hungary	+ 4.0	Q2	+ 3.6	Aug	+ 6.6	Sep	− 3.0	Q2	− 8.4	Q2	12.8	Sep
Poland	+ 6.1	Q2	+ 9.3	Sep	+ 4.4	Sep	− 5.3	Jul	− 3.6	Aug	35.3	Sep
Russia	+ 7.4	Q2	+ 3.5	Sep	+11.5	Sep	+71.8	Aug	+44.6	Q3	94.3	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.9	Q2	+ 5.7	Sep	+ 3.9	Sep	− 2.5	Aug	− 1.5	Q2	1.4	Sep
Latvia	+ 7.7	Q2	+ 6.4	Aug	+ 7.7	Sep	− 2.4	Aug	− 1.4	Aug	1.6	Aug
Lithuania	+ 6.0	Q3	na		+ 3.2	Sep	− 3.2	Aug	− 1.8	Q2	3.4	Aug
Slovakia	+ 5.4	Q2	+ 5.4	Aug	+ 6.6	Sep	− 1.1	Aug	− 1.0	Aug	13.2	Sep
Slovenia	+ 4.6	Q2	+11.5	Aug	+ 3.3	Oct	− 0.9	Aug	− 0.2	Aug	7.7	Jul
Pakistan	+ 6.4	2004†	+24.8	May	+ 9.0	Sep	− 3.9	Sep	+ 1.8	Q2	10.6	Aug
Saudi Arabia	+ 7.2	2003	na		+ 0.2	Jul	+61.2	2003	+29.7	2003	22.2	Aug

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series, % change Jan-May annualised.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Nov 4th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 3rd		Dec 31st 2003	
	Nov 3rd	year ago	Nov 3rd	% a year		one week	in local currency	in $ terms
China	8.28	8.28	15.3	3.20	1,392.8	– 1.1	– 11.2	– 11.2
Hong Kong	7.78	7.77	14.4	0.37	13,397.7	+ 4.4	+ 6.5	+ 6.3
India	45.3	45.3	83.7	5.35	5,842.5	+ 3.2	+ 0.1	+ 0.7
Indonesia	9,120	8,475	16,851	7.49	890.4	+ 4.8	+ 28.7	+ 18.8
Malaysia	3.80	3.80	7.02	2.87	878.5	+ 3.2	+ 10.6	+ 10.6
Philippines	56.4	55.2	104.1	7.69	1,827.3	+ 3.0	+ 26.7	+ 24.8
Singapore	1.67	1.74	3.08	1.38	2,017.4	+ 3.0	+ 14.3	+ 16.6
South Korea	1,117	1,187	2,063	3.54	861.1	+ 6.3	+ 6.2	+ 13.3
Taiwan	33.4	34.0	61.7	1.25	5,862.9	+ 3.7	– 0.5	+ 1.2
Thailand	41.2	39.9	76.1	2.00	641.3	+ 2.3	– 16.9	– 20.0
Argentina	2.95	2.86	5.46	5.63	1,289.4	+ 0.3	+ 20.3	+ 19.4
Brazil	2.83	2.86	5.23	16.74	23,660.1	+ 2.1	+ 6.4	+ 8.4
Chile	605	628	1,117	2.04	8,851.3	+ 1.0	+ 20.6	+ 18.2
Colombia	2,560	2,858	4,730	7.72	3,878.7	+ 4.7	+ 66.2	+ 80.5
Mexico	11.4	11.0	21.1	8.02	11,765.8	+ 2.2	+ 33.8	+ 31.6
Peru	3.32	3.47	6.13	3.20	3,531.0	– 0.1	+ 45.0	+ 51.5
Venezuela	2,410§	1,598	4,452	12.36	30,056.7	+ 2.9	+ 35.4	+ 60.2
Egypt	6.24	6.15	11.53	10.72	21,649.3	+ 1.1	+ 86.0	+ 83.8
Israel	4.44	4.49	8.21	1.00	564.6	+ 3.6	+ 5.6	+ 4.6
South Africa	6.07	6.94	11.2	7.55	11,845.4	+ 0.4	+ 14.0	+ 25.4
Turkey	1,464,500	1,487,500	2,705,957	23.10	23,437.8	+ 3.9	+ 25.8	+ 20.7
Czech Republic	24.6	27.8	45.4	2.62	935.7	+ 4.8	+ 42.0	+ 48.4
Hungary	192	224	354	10.40	13,206.2	+ 1.0	+ 40.8	+ 52.2
Poland	3.36	4.02	6.22	6.85	25,572.8	+ 2.5	+ 22.8	+ 36.7
Russia	28.8	29.8	53.1	13.00	657.7‡	– 1.6	+ 14.0	+ 15.9
EMF (MSCI)*	1.00	1.00	1.85	na	485.8	+ 3.4	+ 9.7	+ 9.7
EMBI+†	1.00	1.00	1.85	na	320.7	+ 1.0	+ 8.8	+ 8.8

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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